INTERNATIONAL MONETARY FUND

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BARBADOS

August 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BARBADOS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Barbados, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its 2016 consideration of the staff report that concluded the Article IV consultation with Barbados.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 22, 2016, following discussions that ended on May 19, 2016, with the officials of Barbados on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 7, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Barbados.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

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August 24, 2016

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700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Barbados

On August 22, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Barbados.

The economy appears to have turned the corner with activity picking up. Real GDP grew by 0.8 percent in 2015, underpinned by an increase in private investment and surge in tourism arrivals, which increased by 14 percent, among the highest in the Caribbean. This boosted employment by 2 percent, while the unemployment rate fell to 11.3 percent. Inflation eased owing to lower import prices, with end-period prices falling by 2.5 percent, compared with an increase of 2.3 percent in 2014. The external current account position improved significantly, reflecting improved terms of trade, as the deficit narrowed from 9.9 percent of GDP in 2014 to 6.7 percent in 2015, primarily reflecting lower oil and other prices. Exports of goods and services rose mainly due to higher tourism receipts. Net inflows in the capital and financial account fell, driven by large official amortization payments and lower FDI. As a result, net international reserves dropped to US$469 million at end-April 2016 (2.8 months of imports).

The fiscal situation remains challenging despite ongoing government adjustment efforts. The FY 2015/16 budget deficit was broadly unchanged at about 7 percent of GDP. Revenue measures, though raising revenue by 1 percent of GDP, fell short of target due to implementation delays. On the expenditure side progress on reducing transfers to State Owned Enterprises was also slower than anticipated, partially attributable to the unbudgeted debt service of one enterprise and transfers to support infrastructure investment financed by external sources. At end-FY2015/16, central government debt excluding (including) securities held by the National Insurance Scheme (NIS) reached the equivalent of 105.5 (141.6) percent of GDP, from 98.0 (132.3) percent in FY2014/15. The large funding requirements, totaling about 45 percent of GDP, have been mostly met by the Central Bank of Barbados (CBB), the NIS, and growing arrears.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

The financial sector remains stable while commercial bank liquidity continues to rise. Private sector credit growth turned modestly positive in 2015, following two years of decline while NPLs declined further. Withdrawal of Correspondent Banking Relationships has directly affected a small number of entities in the International Business and Financial Services (IBFS) sector, whose growth has stagnated since the global financial crisis. Monetary policy has been driven by fiscal considerations, as the CBB continued to fund the government through money creation and with commercial banks' excess reserves. Interest rates have begun to rise, with reduced direct intervention by the central bank in the Treasury Bill auctions.

Executive Board Assessment[2]

The Executive Directors welcomed the pickup in economic growth led by the tourism sector and the improvement in the external position. At the same time, notwithstanding the authorities' consolidation efforts, they noted that the large fiscal deficit and a further increase in public debt remain a challenge. They stressed that continued fiscal adjustment and public sector reforms are necessary to bring public debt on a downward path, preserve external sustainability, and improve investor sentiment. They also underscored the need to eliminate impediments to stronger long-term growth and bolster competitiveness.

Directors commended the authorities' commitment to fiscal adjustment and reforms. They noted that further efforts are needed to put the high and growing public debt on a sustainable path, while minimizing the negative impact on growth and preserving social cohesion. They welcomed the new measures in the August 2016 budget, including reductions in current expenditure and new revenue measures, although they cautioned that a further increase in tax exemptions could erode revenues. Directors underscored the importance of completing the reform of the revenue authority to improve tax administration and increase compliance. They stressed that stronger efforts are also needed to reform state-owned enterprises through better governance, consideration of user fees, and potential divestment and consolidation of public entities. They also called for swift action to eliminate government arrears.

Directors emphasized that the continued financing of the fiscal deficit by the Central Bank of Barbados (CBB) is inconsistent with maintenance of the exchange rate anchor. They encouraged the CBB to allow domestic interest rates to rise in line with increases in U.S. interest rates and ensure adequate international reserve buffers.

Directors welcomed the recent improvement in the non-performing loan ratio and banks' liquid and well-capitalized balance sheets. They encouraged continued close supervision of the financial sector, particularly of non-bank institutions, including credit unions and insurance

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm

companies. Directors noted that domestic banks have not experienced a decline in correspondent banking relationships and welcomed the authorities' efforts with regional partners to understand the issue. They recommended taking quick action on any shortcomings that might be identified by the upcoming AML/CFT evaluation.

Directors agreed that a comprehensive growth strategy is needed to lift the country's long-term competitiveness in the key tourism sectors. Priorities for raising growth include timely implementation of tourism investment and infrastructure projects, improving public service efficiency and streamlining business regulation, increasing labor market flexibility, and unlocking agriculture's growth potential.

Directors encouraged continued efforts, with Fund technical assistance, to resolve outstanding data issues and improve the dissemination of statistics.

Barbados: Selected Economic Indicators

	2013	2014	2015	2016	2017
			Est.	Proj.	*Proj.*
Output, Prices, and Employment *(Annual percentage change)* 1/					
Real GDP	0.0	0.2	0.8	2.1	2.3
CPI inflation (average)	1.8	1.9	-1.1	-0.1	1.6
CPI inflation (end of period)	1.1	2.3	-2.5	0.9	2.3
External Sector *(Annual percentage change)*					
Exports of goods and services	0.2	-3.2	1.7	1.8	3.6
Imports of goods and services	-1.2	-1.5	-5.1	-2.5	5.1
Real effective exchange rate (average)	1.1	2.1	9.0	…	…
Money and Credit *(Annual percentage change)*					
Net domestic assets	13.0	3.1	3.0	1.2	1.3
Of which: private sector credit	-2.2	-4.6	0.5	2.6	3.3
Broad money	6.2	2.1	3.7	1.2	2.0
Public Finances (fiscal year, central government) *(In percent of GDP, unless otherwise specified)* 2/					
Revenue and grants	26.7	28.8	29.7	30.4	30.4
Expenditure	37.7	35.6	36.7	36.8	36.8
Of which: interest	7.0	7.6	7.7	8.3	8.6
Balance	-11.0	-6.9	-7.0	-6.4	-6.3
Of which: primary balance	-4.0	0.7	0.7	2.0	2.3
Public Debt (fiscal year) *(In percent of GDP, unless otherwise specified)* 2/					
Central government gross debt, excluding NIS	94.3	98.0	105.5	106.0	106.7
External	31.6	32.0	31.0	30.3	29.5
Domestic	62.7	66.1	74.5	75.7	77.3
Central government gross debt, including NIS	128.5	132.3	141.6	142.7	143.6
Balance of Payments *(In percent of GDP, unless otherwise specified)*					
Current account	-9.1	-9.9	-6.7	-5.6	-6.0
Capital and financial account	5.9	8.4	4.0	5.7	6.8
Of which: Official capital (net)	2.2	1.0	-1.4	1.2	0.7
Private capital (net) 3/	3.4	8.0	6.8	4.6	6.1
Of which: long-term flows	3.6	7.3	5.5	6.1	6.1
Overall balance	-3.5	-1.0	-1.3	0.1	0.8
Memorandum Items					
Exchange rate (BDS$/US$)	2.0	2.0	2.0	…	…
Net international reserves (US$, millions)	571.9	526.0	463.5	468.6	505.8
In months of imports	3.2	3.0	2.8	2.9	3.0
Nominal GDP (BDS$, millions) 1/	8,742	8,705	8,729	8,903	9,254

Sources: Barbados' authorities and Fund staff calculations.

1/ Staff have identified inconsistencies in the constant and current price GDP series. The Barbados Statistics Service is working to address these issues.

2/ Fiscal year is from April to March.

3/ Includes short-term and long-term flows, and errors and omissions.

INTERNATIONAL MONETARY FUND

BARBADOS

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

July 7, 2016

KEY ISSUES

Context: The economy appears to have turned the corner but a disappointing fiscal outcome has not eased concerns about debt sustainability. After protracted stagnation following the 2008 financial crisis, there was a moderate recovery in 2015 and growth is set to pick up. Notwithstanding adjustment efforts, the budget deficit remained high, mainly reflecting delayed implementation of reforms. The large funding requirements were mostly met by the central bank, the National Insurance Scheme, and growing arrears. Continued large deficits pose risks to the fixed exchange rate.

Focus of the consultation and key policy recommendations: The discussions focused on safeguarding macroeconomic stability and supporting the currency peg through a refocusing of fiscal consolidation efforts. A fiscal adjustment of at least 3.5 percent of GDP over three years—consistent with a primary surplus of 6 percent of GDP—is required to reverse the increase in the debt-to-GDP ratio in 2015/16 and place it on a downward trajectory. An ambitious yet credible adjustment strategy could bolster business sentiment, leading to increased private investment. Adjustment would need to be focused on reenergizing reforms in the revenue agency and of state-owned enterprises, and be accompanied by measures that would strengthen monitoring and implementation.

Authorities' views: The authorities broadly agreed with the staff's assessment of key challenges and policy recommendations. They acknowledged the need for fiscal adjustment given the increase in public debt and large financing requirements, and agreed that the reform would have to be anchored by stronger efforts to improve the implementation of structural changes in the public sector. At the same time, they noted that delivering on such reform is complex, particularly given the growing adjustment fatigue. They noted that effective reform requires a broad stakeholder involvement, but they remain committed to the reform process given its urgency and necessity.

Approved by
Jorge Roldos (WHD) and Peter Allum (SPR)

The mission, consisting of J. Gold (Head), J. Charap, T. Dowling, R. Price (all WHD), and A. Swistak (FAD), visited Barbados during May 9–19, 2016. Mr. Dalrymple and Ms. Zorn (both OED) joined the mission. N. Mwase (SPR) participated in the mission from HQ. C. Li, F. Loyola, H. Canelas, and E. Moreno provided able assistance. Outreach included meetings with the leader of the opposition, labor organizations, and academics.

CONTENTS

ANNEXES

CONTEXT

1. **The global financial crisis derailed growth while fiscal adjustment was delayed and insufficient which led to persistent deficits and mounting debt.** The crisis hit Barbados through a combination of factors, mainly a steep fall in tourism, a decline in construction, stagnation in the international business and financial sector (IBFS), and the collapse of a large, foreign-owned insurance company. These have had a profound and persistent negative impact on growth that is still being felt. Average growth during 2008–14 was -0.3 percent, the budget deficit averaged 7.4 percent of GDP, and central government debt grew from 51.4 percent of GDP at end-FY2007/08 to 105.5 percent at end-FY2015/16. Measurement issues complicate a clear understanding of past developments, and may also be providing an incomplete picture of recent developments.

RECENT DEVELOPMENTS

2. **The economy appears to have turned the corner with activity picking up.** Real GDP grew by 0.8 percent in 2015—underpinned by an increase in private investment and a surge in tourism arrivals—relative to 0.2 percent in 2014. Tourism arrivals increased by 13.9 percent, the highest in the Caribbean following Cuba and Aruba.[1] Employment rose by 2 percent and the unemployment rate fell to 11.3 percent. Lower import prices pushed consumer prices down, with end-period inflation of -2.5 percent, compared to 2.3 percent in 2014.

3. **The external current account position has improved significantly, partly reflecting improved terms of trade.** The current account deficit narrowed from 9.9 percent of GDP in 2014 to 6.7 percent in 2015, reflecting a sharp decline in import values due to lower oil and other prices, notwithstanding increased volumes of oil and intermediate goods imports. Exports of goods and services rose by 1.7 percent of GDP in 2015, mainly due to a tourism receipt increase of 3.6 percent. Net financial flows halved from 8.4 percent of GDP in 2014 to 4.0 percent in 2015, driven by large amortization payments and lower FDI. Net international reserves fell to US$469 million at end-April 2016 (2.8 months of imports), down by US$57 million from end-2014.

4. **Fiscal performance in FY2015/16 was disappointing.** In late 2013, following several years of large fiscal deficits, the government renewed reform efforts including a substantial reduction in public sector employment. After significant consolidation in FY2014/15, the government undertook further adjustment measures, broadly in line with the staff's recommendation in the 2015 Article IV (Box 1).

Revenues and Expenditures: FY 2014/15 - FY 2015/16

	2014/15	2015/16 (AIV)	2015/16 (Est.)
	(in percent of GDP)		
Total revenue	**28.8**	**29.3**	**29.7**
Tax	26.7	27.7	28.2
Non-tax	2.1	1.6	1.5
Total Expenditure	**-35.6**	**-35.0**	**-36.7**
Current Exp (w/o Interest)	-25.8	-24.8	-26.6
Interest	-7.6	-7.6	-7.7
CapEx	-2.2	-2.6	-2.4
Deficit	**-6.9**	**-5.7**	**-7.0**

Sources: Barbados authorities and Fund staff calculations.

[1] The increase in Aruba is related to visitors from Venezuela.

Notwithstanding, the budget deficit in FY2015/16 remained broadly unchanged at about 7 percent of GDP, well short of the authorities' objective.[2] FY2015/16 budget measures increased revenue by approximately 1 percent of GDP, short of the government's target, due to implementation delays. On the expenditure side, progress toward reducing transfers to State Owned Enterprises (SOEs) was slow, partially attributable to the unbudgeted debt service of one enterprise and transfers to support infrastructure investment financed by external sources, to address severe issues with the water mains.

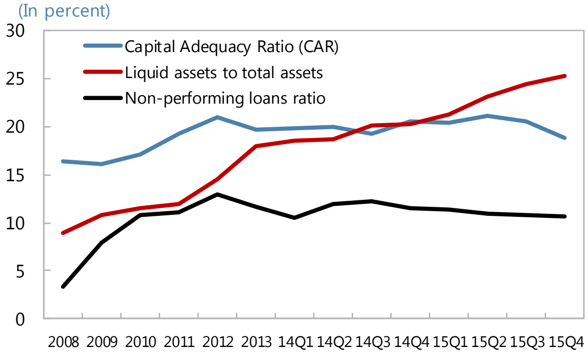
5. **Given the high debt, financing the deficit is challenging.** At end-FY2015/16, central government debt excluding (including) securities held by the National Insurance Scheme (NIS) was 105.5 (141.6) percent of GDP. Rollover requirements are about 45 percent of GDP and new financing is largely being met by the Central Bank of Barbados (CBB), the NIS (through issuance of debentures in lieu of cash contributions for wages and salaries), and arrears. On April 1, 2016, Moody's Investors Service ("Moody's") downgraded Barbados' government bond rating to Caa1 and changed the outlook to stable, largely on account of the high fiscal deficit and growing debt levels.

6. **Arrears are large and growing.** Staff estimates that central government arrears rose from 4.3 percent of GDP at end-FY2014/15 to 5.9 percent at end-FY2015/16, including arrears to the NIS. SOE arrears are estimated to have risen to 5.5 percent of GDP, of which the largest share is to the Barbados Revenue Authority (BRA) and NIS. Arrears are impeding private sector transactions, inhibiting investment, and may be contributing to erosion of tax compliance.

7. **The financial sector remains stable while commercial bank liquidity continues to rise.** Financial sector indicators show that the banks are well capitalized and very liquid, and hence, have strong protection against macro-financial risks (text table and Annex IV). Private sector credit growth turned modestly positive in 2015, following two years of decline. Other financial indicators remain strong, although profitability remains low with a 0.9 percent return on assets. Bank non-performing loans (NPLs) declined to 10.6 percent of total loans, a trend that the CBB expects will continue over the near-term. The most recent stress tests published by the CBB show bank capital-asset ratios to be robust to a significant increase in NPLs. Given modest private sector credit demand, bank liquidity continues to increase and commercial bank excess reserves in local currency rose by B$353 million in

Commercial Bank Assets

(In percent)



Sources: Barbados Authorities and Fund staff calculations.

Financial Sector Indicators

(In percent)

	2013	2014	2015
Commercial Banks			
Capital Adequacy Ratio (CAR)	19.7	20.5	18.9
Liquid assets, in percent of total assets	18.0	20.3	25.3
Non-performing loans ratio	11.7	11.5	10.6
Return on Assets (ROA)	0.8	0.7	0.9
Credit Unions			
Loan to deposit ratio	90.5	92.7	90.8
Non-performing loans ratio	8.7	9.4	9.1
Return on Assets (ROA)	0.9	0.6	0.6

Sources: CBB and Fund staff calculations.

[2] Cash deficit is higher, as the government reports revenues on an accrual basis.

2015. Bank exposure to government increased through holdings of Treasury Bills, partly offset by reduced holdings of longer-term debentures.

Box 1. Implementation of 2015 Article IV Recommendations

Areas where there was progress in the following 2015 Article IV recommendations:

- Contain current spending through further reductions in the wage bill and transfers.
    - *While the wages and salaries bill (in percent of GDP) fell marginally in 2015/16, transfers increased by an estimated 0.7 percent of GDP, partially due to an unbudgeted debt amortization of one entity.*
- Accelerate restructuring of public enterprises, including amalgamation or divestment.
    - *The authorities have set up a Monitoring Unit, and are reviewing the business plans of 15 large state-owned enterprises (SOEs). However, progress in rationalizing and reining in spending has been slow.*
- Continued to make progress in implementing several of the 2014 FSAP Update recommendations:
    - *Legislative amendments to the CBB, FSC and Financial Institutions Act are being drafted or are before Parliament; the strategic plan for Barbados Deposit Insurance Corporation (BDIC), and discussions on a deposit insurance system for credit unions are continuing.*

Areas where there was limited or no progress:

- Establish a medium-term fiscal consolidation framework—with a debt anchor.
    - *The government missed its 2015/2016 deficit target by a significant margin, and the central government debt-to-GDP ratio continued to rise by an estimated 7.5 percentage points.*
- Review social spending to better target social programs.
    - *No discernible progress.*
- Improve the quality of public services by reducing delays and inefficiency, and reviewing the impact of labor market regulations on employment growth.
    - *No progress.*
- Cease central bank financing of the government and, if financing sources are not sufficient, allow interest rates to rise to support the exchange rate peg.
    - *The CBB continues to be a major purchaser of government debt although it has allowed interest rates to rise somewhat.*
- Shortcomings related to production and dissemination of data should be addressed before the next Article IV consultation.
    - *Despite ongoing TA, progress in improving data and resolving inconsistencies between real and nominal GDP and the deflator has been slow.*

8. **Monetary policy is driven by fiscal considerations.** The CBB has continued to fund the government through money creation as well as using commercial banks' excess reserves. Direct intervention by the CBB in the Treasury Bill (TB) auction in the 2015 pushed down interest rates, although in the more recent auctions, the short-term rate rose to an average of about 3.4 percent, from 2.8 percent in 2015. CBB purchases of TBs and debentures accounted for approximately two-thirds of the increase in financing of the government in 2015.

9. **While the political situation remains stable, public frustration with weak growth and fiscal adjustment is mounting.** The Democratic Labour Party has been in power since 2008, narrowly winning reelection in February 2013. Parliamentary elections are scheduled for 2018. There are growing signs of frustration following multiple tax increases, a 10 percent government work force reduction, and a wage freeze since 2009. Real wages are 11½ percent lower than in 2008. Labor action is increasing, including a temporary closure of the port and airport in March 2016, and demands for wage increases are becoming more pressing. Wage pressures are exacerbated by the recent unwinding of a late 2013 10 percent voluntary wage cut for ministers and Parliamentary Secretaries.

OUTLOOK AND RISKS

10. **With debt rising and arrears mounting, the outlook is clouded.** Growth is projected to rise to 2.1 percent in 2016, reflecting higher private and public investment, mainly in refurbishing and expanding the tourism stock, including the anticipated launch of two large hotel projects. While growth should continue at around this pace in 2017, it is likely to taper off thereafter as tourism plateaus and private and public investment is undermined by weak fiscal performance. In the absence of a renewed reform effort, the fiscal outlook falls short of what is needed for sustainability. Staff projects a deficit of 6.4 percent, based on the draft budget presented in March 2016, with a primary surplus of 2 percent. Despite this improvement, central government debt would continue to increase, reaching 114.2 percent in FY2021/22. In light of expected interest rates increases and low credit ratings, debt service costs will rise, increasing funding challenges and putting pressure on the exchange rate peg.

11. **Despite favorable trade developments, external reserves remain low.** Low oil prices and tourism inflows should further narrow the current account deficit from 6.7 percent of GDP in 2015 to 5.6 percent in 2016. Despite the improvement in the current account and increased official disbursements (including a loan from China) reserves remain at about 2.9 months of imports at end-2016. Although external debt is low and debt amortization is moderate, the level of reserves provides limited room to maneuver in the event of a downside shock. Over the medium-term, the current account balance is projected to deteriorate with the weakening in the terms of trade and reserves are projected to decline.[3] The recent Moody's downgrade highlights growing risks.

12. **The external competitiveness assessment points to challenges.** The currency is judged moderately overvalued by approximately 5 to 10 percent. A cross-country comparison using global indices indicates a decline in competitiveness while record tourism arrivals suggest that Barbados is

[3] Reserves drop sharply in 2020/21 from 2.7 months of imports to 2.2 months because of scheduled amortization.

reestablishing its position as a prime Caribbean destination. Nevertheless, weak growth over the last 8 years, coupled with a slow recovery, point to serious challenges.

13. **While the financial system is sound, further deterioration of the fiscal situation could put pressure on the system.** Despite capital controls (which the authorities view as necessary to support adequate reserve cover for the exchange rate peg), amplification of sovereign credit concerns would put pressure on official reserves through current and/or capital account seepage.[4] Moreover, a confidence crisis or real economy setback would reverse the decline in NPLS and would weigh heavily on banks' profitability. Banks do not carry large net open foreign exchange positions, hence would not be directly exposed in case of a change in the exchange rate regime.

14. **Withdrawal of Correspondent Banking Relationships (CBRs), which is a concern in the Caribbean, does not appear to have affected the domestic banks directly.** All domestic banks are foreign-owned, and their CBRs have been maintained.[5] Nevertheless, banks have terminated relationships of some IBFS corporate vehicles which could further depress growth prospects in the offshore sector. The findings of the upcoming mutual evaluation by the Caribbean Financial Action Task Force (CFATF) on AML/CFT could identify reforms that increase regulatory compliance costs for IBFS entities.

15. **Other risks emanate from the external environment (see RAM, Annex I).** Weak growth in advanced economies, particularly the U.K., and spillovers from Brexit, could reverse the recent improvement in arrivals and jeopardize domestic and foreign private investment in refurbishing and expanding the tourism stock. The possible spread of the Zika virus could also undermine the tourism recovery. A strong U.S. dollar could erode competitiveness and financial volatility could reduce FDI and other capital flows, putting further pressure on the peg.

POLICY DISCUSSIONS

Policy options are limited. While the government has undertaken considerable adjustment measures in the past few years, the deficit remains large while the debt keeps increasing, reflecting weak growth and implementation shortfalls (Box 2). The authorities are committed to maintaining the exchange rate peg and their strong record of timely debt service. In this context, policy discussions focused on reforms to support the economic recovery, to reinvigorate fiscal consolidation, to reduce financing requirements and reduce debt, and on measures to maintain financial stability and safeguard the currency peg.

Support a Nascent Economic Recovery

16. **Key policy recommendations center on improving public sector services and eliminating growth impediments.** Priority should be placed on reforms to: (i) improve the delivery, quality and cost effectiveness of public services; (ii) improve labor market efficiency; and (iii) enhance agricultural sector polices. The World Bank's Doing Business survey, the World Economic Forum

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[4] A large insurance company recently announced it would relocate its head office out of Bridgetown, as a result of Barbados' credit downgrades.

[5] 3 Canadian, 2 Trinidad and Tobago, 1 U.S.

Box 2. Fiscal Adjustment Effort Over the Past Five Years

Recognizing the deterioration in public finances and rising debt, the government began implementing fiscal reforms. Notwithstanding these efforts, the results have been mixed. These measures include:

- A freeze on public sector wages since 2009.

- An increase in the value added tax rate from 15 percent to 17.5 percent (initially introduced for 18 months) in December 2010, extended indefinitely in May 2012 (the VAT rate on tourism products was reduced to 7.5 percent from 8.75 percent in September 2013).

- In the 2013 Financial Statement and Budgetary Proposals:
  - ✓ Commitment to a fiscal consolidation of 5.3 percent of GDP over the period September 2013–March 2015 (19 months), with two thirds of the adjustment to come from current expenditure cuts;
  - ✓ In the medium term, the government targeted a fiscal deficit of 2.0 percent of GDP by 2020.

- Public sector retrenchment was announced in December 2013:
  - ✓ Roughly 3,000 public sector employees (about 11.5 percent of the total 26,000 employees in the central government and statutory corporations) were to be laid off in two tranches, with the first 2,000 in January 2014, followed by 1,000 in March 2014;
  - ✓ A further 500 public sector employees were to be downsized by attritions until 2018/19. This was to have led to an estimated cut of 15 percent in public sector employment;
  - ✓ High-ranking Government officials were to take a temporary ten per cent salary reduction;
  - ✓ Wages and salaries were down by 8.2 percent in 2014/15 from 2012/13, somewhat short of expectations. A savings of BD$72 million (0.8 percent of GDP) was realized, as compared to the BD$140 million (1.6 percent of GDP) envisaged;

- The 2015/16 June Budget statement:
  - ✓ Introduced a host of tax measures drawing on the 2014 FAD review of taxation, that were to raise BD$200 (2.3 percent of GDP) million in additional taxes and excise duties in the full fiscal year; these included:
    - Removal of Group Relief and the reduction of the carry forward period for tax losses from nine years to seven years with an anticipated increase in annual receipts by BD$19 million (0.2 percent of GDP);
    - An increase in land tax rates designed to raise BD$44 million (0.5 percent of GDP);
    - Narrowing VAT exemptions (adjustment to the tax free food basket), imposition of the VAT on betting and gambling (0.5 percent of GDP);
    - A new surcharge (higher VAT rate) on mobile telephone usage designed to raise BD$32.7 million (0.4 percent of GDP);

The government embarked on the reform of the Revenue Authority beginning April 2014 by establishing a new semi-autonomous agency—the Barbados Revenue Authority (BRA), merging four government departments aimed at improving tax collections efficiency, risk management and tax enforcement. Customs and Excise Department was to be merged in April 2015, but is delayed. Delays in completing the reform and in the implementation of a number of new tax measures has adversely affected 2015/16 tax performance.

The government undertook the reform of SOEs in 2014, with CARTAC support, to strengthen their finances by improving corporate governance, strengthening internal control, and preparing financial statements. The reform focused on the 15 largest enterprises, accounting for nearly 90 percent of government transfers in FY2015/16, to permit their reduction over time. Progress has been slow, with more modest reduction in transfers than planned, while at the same time there are reports of a significant increase in enterprise arrears.

(WEF) Global Competitiveness report, and the Tourism-WEF Report all point to impediments to private sector growth, including public sector inefficiencies and delays caused by bureaucratic hurdles. The perception of excessive government bureaucracy and red tape needs to be addressed by concerted action to streamline processes and procedures, including by making more services available online and making application requirements clearer. High priority should be placed on facilitating permit issuance which is impeding investment, in some instances for extended periods, which could slow the recovery. Efforts to reform the labor market should seek to increase flexibility and boost productivity without unduly reducing worker protection. Collective labor agreements include for example rigid rules limiting the permitted working hours, and legislation imposes lengthy processes to permit dismissal, which raises costs and discourages employment. Government involvement in helping to enhance employment opportunities should be practical and cost effective, involving the business community and labor in the development of creative, low-cost solutions. Agriculture is a potential source of growth, if it could strengthen its links to tourism through more local product sourcing. While there is scope for the government to act as a facilitator in agricultural initiatives, including through training and partnership with the private sector, public sector involvement must be limited by overarching budget constraints.

Authorities' views:

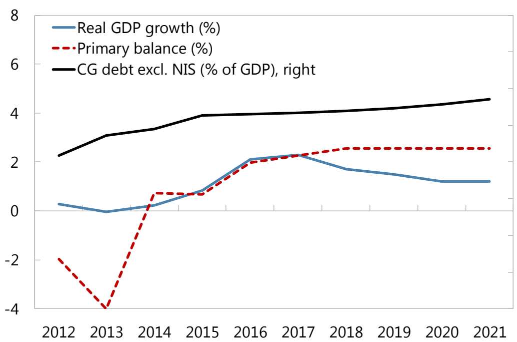
- The authorities generally agreed with staff recommendations. They acknowledged that there was room for improvement in the provision of public services, but questioned the accuracy of the Doing Business Report, and noted, for example, that business licenses were typically granted in 3 days once supporting documentation was in order. They indicated that reforms are underway, including enabling online filing, streamlining certain business legislation, and accelerating registrations of businesses and licensing. Regarding Town and Country Planning building permits, the authorities acknowledged instances of delay while noting that some could be attributable to incomplete applications, such as the absence of an environmental impact assessment, or zoning variance requests.

Resuscitate Fiscal Adjustment

17. **Additional adjustment is needed to stabilize debt and reduce funding requirements.** To place debt on a downward trajectory after an increase of 7.5 percent of GDP in FY2015/16, and to address the funding challenges, staff recommended fiscal adjustment of at least 3.5 percent of GDP over the next three years. Such adjustment would reduce debt below 100 percent by FY2019/20, ease the funding burden, support international reserves, and improve the country's credit ratings. However, the government's recent weak track record raises concerns as to whether there is adequate implementation commitment or capacity. Currency depreciation, which the authorities reject, may improve competitiveness and could allow for a somewhat less ambitious adjustment, although substantial fiscal adjustment would still be required. Market-based debt operations are another option, which could reduce funding requirements, but given the debt structure, the benefits of a restructuring would be small and could have negative repercussions (see Appendix II).

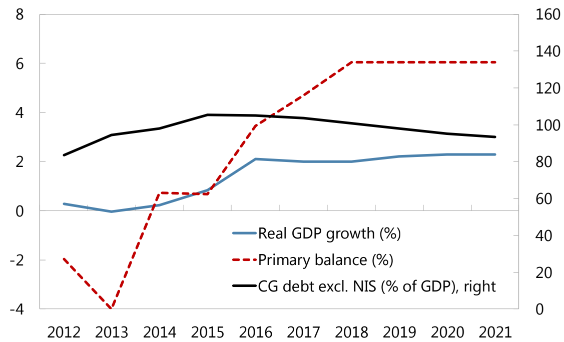
18. **The proposed adjustment could temporarily inhibit growth, but would support higher growth over the medium term.** Notwithstanding the potential fiscal drag, a slower pace of fiscal consolidation, in the absence of external funding, would entail significant risks. In this context, an ambitious yet credible strategy may progressively improve business sentiment and increase private investment, as well as ensure that the government has adequate resources for critical public spending. These factors, together with early steps to tackle business impediments, could broadly offset the negative short-term fiscal impulse while leading to higher medium term growth. Moreover, fiscal reforms would support growth by reducing waste and duplication through a more efficient public sector, rather than further cuts in employment and wages.

Baseline Scenario
(In percent)



Source: Fund staff calculations.

Adjustment Scenario
(In percent)



Source: Fund staff calculations.

19. **Adjustment should focus on renewing structural reform of the public sector and significantly improving implementation, as well as measures to contain expenditure and raise revenue.** The fiscal deficit is projected to decline from 7.0 percent of GDP in FY2015/16 to 6.4 percent in FY2016/17 as a result of further increase in revenues reflecting the full year impact of revenue measures put in place in June 2015, and lower transfers, largely the result of the government not needing to make transfers to cover debt service (unexpected in FY2015/16) on behalf of enterprises, as well as the continued reform to improve SOEs finances. Under the reform scenario, the government would implement additional measures starting in FY2016/17 and improve implementation, including by intensifying monitoring, quickly addressing shortfall as well as strengthening capacity. In the active scenario, the primary surplus would rise to 6.1 percent of GDP by FY2018/19 while the debt-to-GDP ratio would fall to 93 percent by FY2021/22 and continue to decline thereafter. A sustained primary surplus of 6.1 percent would reduce debt to 90 percent of GDP by FY2023/24, assuming an average interest cost of 7 percent and nominal growth of 4 percent. For comparison, with real growth of 1 percent and the same primary balance improvement, the debt to GDP ratio would be 103 percent in FY2021/22 and only decline below 100 percent by FY2019/20. The government would be better served by a more aggressive strategy, underpinned by an active

Expected Yields from Adjustment and Reform
(Cumulative from 2016/17 to 2019/20)

(in percent of GDP)	
New revenue measures	0.8
Improvement in tax administration	0.7
Reduced current spending	0.6
Reduced transfers to SOEs	1.4
Total	3.5

Source: Fund staff calculations.

divestment program to reduce debt more quickly, and a higher primary surplus of about 7 to 8 percent of GDP. The pillars of the proposed adjustment strategy are:

- **Completing and strengthening BRA reform.** Establishment of the BRA and its merger with the Customs and Excise Department (CED) has been ongoing since April 1, 2014 with the merger now delayed from April 1, 2015 to July 1, 2016. Repeated delays, combined with periodic labor action, have resulted in limited focus on risk management and tax enforcement. A new, revitalized reform would emphasize:
    - urgently completing the BRA-CED merger
    - strengthening the large taxpayers unit
    - accelerating modernization efforts including improved data collection, verification, and sharing, supported by rapid implementation of a new IT system
    - adopting effective risk management and enforcement strategies
    - resolving outstanding tax arrears issues by prioritizing refunds in the cash management by the Accountant General.

Illustrative Adjustment Scenario
(In percent of GDP)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
				Primary balance			
Baseline	0.7	2.0	2.3	2.6	2.6	2.6	2.6
Adjustment scenario	0.7	3.5	4.7	6.1	6.1	6.1	6.1
Difference	0.0	1.5	2.4	3.5	3.5	3.5	3.5
				Adjustment composition			
VAT	0.0	0.0	0.1	0.2	0.2	0.2	0.2
Other indirect taxes	0.0	0.8	0.9	1.1	1.1	1.1	1.1
Direct taxes	0.0	0.0	0.1	0.2	0.2	0.2	0.2
Wages	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Goods & services	0.0	0.1	0.2	0.5	0.5	0.5	0.5
Transfers	0.0	0.7	1.0	1.4	1.4	1.4	1.4
Capital expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Debt: Baseline	105.5	106.0	106.7	107.7	109.3	111.3	114.2
Debt: Adjustment	105.5	104.9	103.6	100.8	98.1	95.3	93.3
Real GDP growth: Baseline	0.8	2.1	2.3	1.7	1.5	1.2	1.2
Real GDP growth: Adjustment	0.8	2.1	2.0	2.0	2.2	2.3	2.3

Note: Central government debt (less NIS) is reported
Source: Fund staff calculations.

- **Deeper and comprehensive SOE reform.** Transfers to SOEs increased from 9.8 percent of GDP in 2005/06 to a peak of 14.4 percent in 2013/14. Reforms, which began in 2014 with the assistance of CARTAC, focus on the 15 largest enterprises accounting for over 80 percent of transfers. These reforms aim to improve corporate governance, strengthen internal control, prepare financial statements, and provide the basis for reducing government transfers. Recent debt service difficulties with one SOE highlight the need to improve SOE governance. A comprehensive strategy is needed, including fundamental reconsideration of the size and form of SOE-supported social programs, which should include:

- providing stronger government leadership and policy direction in the reform of programs, including in reducing the scope of services and increasing reliance on user charges
- making SOE managers accountable for implementation of financial and restructuring plans
- strengthening the SOE monitoring unit by increasing staffing and granting more authority
- increasing the pace of consolidation, rationalization, and divestment of the 64 SOEs.[6]

- **Eliminate arrears.** To contain and clear arrears, including tax refund arrears, the budget process needs improvement, including by strengthening forecasting capabilities, imposing hard spending ceilings, and strengthening SOE oversight.[7] A comprehensive strategy for SOE management should help reduce arrears accumulation resulting from lower budget transfers. Improved internal controls, readjustment of business plans, and stronger corporate governance would support this objective. A reduction in central government arrears to SOEs and the private sector should improve their liquidity and trigger a broader reduction in arrears, as well as enhance taxpayer ability to pay the BRA.

20. **Maintain NIS integrity**. As in other Caribbean countries, Barbados' NIS faces pressure from population aging and slow growth. The NIS is well managed, with high contribution rates, ranging from 17.75 to 21.35 percent, and coverage of about 90 percent of employed. The retirement age is increasing to 67 years by January 1, 2018. Nevertheless, the weak employment growth in recent years has led to a deterioration of the NIS financial position and expenditures began to exceed contributions in 2013, rather than in 2024 as estimated in the 14th Actuarial Review,[8] and, since 2014, the NIS has faced late contribution payments from the government and SOEs. The bulk of the investment portfolio—74 percent—is held in government securities, well in excess of an earlier suggested prudential limit of 54 percent and the agency's target of 60 percent. Given high contribution rates and the adjusted retirement age, there is limited scope to address future shortfalls other than by reducing benefits. Replacement income is 60 percent (for low earners) and this would need to be revisited if investment earnings and contributions fall below expenditure. Staff urged the government to make contributions in a timely manner (rather than providing the equivalent in debentures) to ensure that NIS has sufficient liquidity.

Authorities' views:

- They noted that the budget deficit in 2015/16 was higher than targeted due to increased transfers as a result of debt service the government made on behalf of one entity, and several foreign-financed investments that are represented as transfers. The latter include a high priority project to upgrade ageing infrastructure in the water sector. Adjusting for these developments, the authorities argued that they were much closer to their deficit target. More generally, they emphasized that the foreign-financed capital projects should be accounted for differently.

[6] There are about 200 public "agencies" including 64 SOEs.

[7] The 2015 tax reforms eliminated a large number of zero-rated goods and services under the VAT as well as abolished certain tax credits in PIT. This should reduce pressure for payment of tax refunds.

[8] Koffie Nassar et. al., *National Insurance Scheme Reforms in the Caribbean*, IMF Working Paper (forthcoming).

- The authorities recognized the need for fiscal adjustment and were in broad agreement with staff's recommendations, acknowledging that fiscal adjustment is urgent in light of the funding constraints and loss of international reserves. Nevertheless, in light of adjustment fatigue, it was important to ensure broad stakeholder involvement, and they noted that legislative changes can cause delays in implementation.

- They agreed with the focus on SOE reform, and indicated that they plan to intensify their efforts in this area, including by expanding the role of the private sector in providing some services. Regarding health care financing, it was important to ensure that service quality is maintained, and they were contemplating specific measures dedicated to funding the hospital. More generally, they noted that an increase in user fees could increase cost of living, and could prompt calls for wage increases. Moreover, while there is scope to streamline SOE activities and merge entities, labor unions would have to be involved in the process.

- A shortage of cash has led to tax arrears, which are exacerbated by the complex VAT structure and associated refunds. To help reduce these arrears in the future, they are contemplating doing away with all domestic zero-ratings. To reduce arrears, the authorities envisage a netting operation of the interagency arrears, and offering government paper in lieu of cash settlement to deal with suppliers' arrears.

Maintain monetary and financial stability

21. **Monetary policy needs to be consistent with the exchange rate peg**. The CBB should end its direct financing of the government, including through direct purchases of government debt through "recycling" of commercial banks' excess reserves and by money creation.[9] Such purchases risk an unsustainable expansion of the monetary base, depleting international reserves and over the long run are incompatible with a fixed exchange rate,. constituting a significant macro-financial risk. Moreover, the CBB should continue to allow domestic interest rates to increases in line with U.S. rates, to reduce pressure on the peg.

22. **Continue close supervision of non-bank financial institutions.** Credit unions have broad membership, and, like the banks, faced loan quality deterioration (chiefly mortgages) and lower profitability since the global financial crisis. Though NPLs remain high, despite some decline in 2015, credit unions are not considered a source of systemic risk.[10] In line with the 2014 FSAP Update recommendations, staff underscored the need to move forward with improving onsite supervision and regulation of the non-bank financial sector, and cross-border supervision of financial institutions. The insurance sector, while large, has not been growing and profitability has been mixed.[11] Most

[9] Commercial banks' direct holding of government securities is equivalent to 15 percent.

[10] The 34 Credit Union have assets that comprise about 9 percent of the domestic financial system, compared to about 60 percent for the commercial banks, but have a large membership of about 174,000 members.

[11] Latest public full-year data are for 2014.

insurance company investment is held domestically by statutory requirement, primarily in government debt, also concentrating this sector's exposure to the sovereign.

23. **The economically important International Business and Financial Services Sector (IBFS) faces risks in light of heightened global concerns.** Growth in the sector—which is second in importance after tourism—has been stagnant since the onset of the global financial crisis because of regulatory changes in other jurisdictions, mainly Canada, which is the source of much of Barbados's offshore business (Box 3). Withdrawal of CBRs, which has had broad repercussions in the Caribbean, has not impacted domestic banks in Barbados, though a small number of IBFS entities have lost CBRs. The prospects of further withdrawals of CBRs could depress growth in the sector. Furthermore, correspondent banks and IBFS firms face increasing regulatory compliance costs under AML/CFT regulations. The findings of the upcoming CFATF AML/CFT evaluation, beginning this summer and expected to be completed in December 2016, could raise issues that increase costs. Against this backdrop, financial sector regulators at the CBB and FSC should ensure close scrutiny of financial intermediaries in the onshore and offshore sectors to support Barbados' desire to project a strong reputation as a transparent, efficient, and diverse financial center.

Authorities' views:

- The authorities acknowledged the increasing risks to macro-financial stability arising from continued central bank financing of government. They were concerned about the adverse impact of withdrawal of CBRs, particularly for the offshore sector, and indicated the need for a global resolution to address the regulatory burden and reduce the externalities for small jurisdictions.

Other

24. **Data inadequacies complicate understanding of macroeconomic developments and may lead to inadequate policies.** As noted above, current and constant price-based GDP data cannot be reconciled with available price information. The series have moved in different directions since 2011. In addition, the current GDP series may not be a comprehensive measure of economic activity, while inflation is consistently higher than in similar economies (see Selected Issues Paper). Other concerns include the lack of adequate information on measuring tourism value added. While adequate for surveillance, the data shortcomings increase difficulties establishing policy priorities and monitoring outcomes. Staff stressed the urgency of addressing these shortcomings and urged the authorities to obtain the support needed to resolve capacity problems.

Authorities' views:

- The authorities recognized data inadequacies, and took note of inconsistencies that have emerged in recent years. They plan to complete the technical assistance program that is underway and seek a long-term resident advisor to build capacity in this area on an ongoing basis.

Box 3. International Business and Financial Services Sector Developments

The International Business and Financial Services sector (IBFS) in Barbados is the second largest, after tourism, and was one of the most dynamic sectors driving growth. However, the global financial crisis and legislative changes in Canada have adversely impacted the sector and its future prospects.

From 2001-2008, direct employment in the sector nearly doubled, from about 2000 to over 4000, the majority of which were locals. The sector also became an important part of the tax base, with its contribution to government revenues rising from 12 to 34 percent over the same period, a 229 percent increase from 2001 to 2007 (the peak in tax earnings), or about 22 percent per annum.

IBFS Sector, 2001-2013
(Millions BBD, left; Number, right)

Sources: Central Bank of Barbados and Fund staff calculations.

While the global financial crisis reduced earnings and increased uncertainty, legislative changes in Canada would appear to be a key factor in the sector's stagnation in more recent years. Canadian companies account for approximately 80 per cent of all the business conducted in the IBFS. Hence, changes in Canadian legislation have a particularly strong impact on it. Two significant changes have occurred:

- In 2007, Canada extended its favorable "exempt surplus" tax treatment of foreign affiliates in tax-treaty countries to all jurisdictions that sign tax information exchange agreements (TIEAs).[1] Prior to this, Barbados had been the main destination for Canadian business investment, but the changes made other jurisdictions with lower or no taxes and an TIEA more attractive. In response, Barbados reduced its taxation rates to remain competitive, lowering the top marginal tax rate on international business companies from 3 percent to a range of rates from 0.25 percent to 2.5 percent in 2012 and 2013.
- As of January 1, 2015, the Canadian government strengthened the integrity of exemption under its foreign accrual property income regime to limit the erosion of its tax base, thereby reducing the benefit of holding companies in Barbados and other favorable tax jurisdictions. This also impacted the trust sector, which had been one of the island's growth areas.

As a result of the Canadian legislative changes, combined with developments following the global financial crisis, such as advanced economies' concerns over tax compliance and increased scrutiny of offshore banking centers in general, growth of the IBFS has been stagnant. Employment has remained relatively stable since 2009 and the number of registered companies has remained at around 4 thousand. Moreover, direct government revenues have significantly declined, from B$356 million in 2007 to B$ 97 million in 2013. This represents a loss of about 3 percent of GDP.

Growth prospects remain clouded. While the sector continues to be the second most important, global competition from other offshore jurisdictions, as well as efforts from advanced economies to reduce tax arbitrage, remain challenges. Most recently, withdrawal of correspondent banking relationships, or more broadly, "derisking" is creating new uncertainty. The government continues to support the industry, including with its effort to sign double taxation agreements (18 since 2010), as well as to reform business practices and legislation, to remain competitive.

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[1] The first of the TIEA was signed between Canada and Bermuda in 2010, and became effective in 2011, followed by several others.

STAFF APPRAISAL

25. **Economic activity is picking up after 7 years of stagnation.** A surge in tourism arrivals boosted growth to 0.8 percent in 2015 and growth should be about 2 percent this year and next if the planned private and public investment programs go forward. Favorable terms of trade developments have reversed consumer price inflation while narrowing the external current account deficit.

26. **Despite renewed reform efforts, fiscal performance remains disappointing and financing the deficit is challenging.** After significant consolidation in 2014, the budget deficit has been about 7 percent of GDP. Central government debt has been rising rapidly and now exceeds 100 percent of GDP. Rollover requirements are about 45 percent of GDP and new financing is largely met by the central bank, the NIS, and arrears.

27. **Efforts are needed to support a nascent economic recovery.** Priority should be placed on improving public sector services and eliminating growth impediments, especially those related to new tourism developments. Efforts to reform the labor market should seek increased flexibility and productivity without unduly reducing worker protection. Agriculture is a potential source of growth, particularly if underpinned by local product sourcing for the tourism sector. Labor market interventions or agricultural initiatives should be practical and cost effective, involving the business community and labor in the development of creative solutions against the backdrop of overarching budget constraints.

28. **Concerted action is needed to reduce the fiscal deficit and bring down public debt.** To reverse last year's 7.5 percent of GDP increase in public debt, fiscal adjustment of at least 3.5 percent of GDP over three years is needed and greater consolidation would be warranted. This adjustment is needed to ease the funding burden, support international reserves, and improve business sentiment. While adjustment could temporarily inhibit growth, the negative fiscal impulse should be largely offset by greater investor confidence, which could boost private sector investment.

29. **The adjustment strategy would focus on renewing structural reform in the public sector and significantly improving implementation.** This would require increased efforts to monitor progress and enact corrective measures when progress falls short of target. It would require improving capacity where needed and holding managers accountable for implementing proposed reforms. It would be complemented by further measures to increase revenues and contain spending, though the majority of fiscal savings should be the result of significant changes in the public sector operations and the delivery of public services.

30. **In this context, urgent efforts are needed to revitalize revenue authority reform.** Merger of the revenue authority and customs service should be completed expeditiously and the large taxpayers unit should be strengthened. Modernization is needed, including improved data collection, verification, and sharing, supported by rapid implementation of a new IT system.

Accelerated adoption of effective risk management and enforcement strategies would also boost revenue authority effectiveness.

31. **Decisive steps are also necessary to reform state-owned enterprises.** A deeper and more comprehensive strategy is needed, including fundamental reconsideration of the size and form of SOE-supported social programs. This could lead to the paring down of some public services and/or the establishment of user fees. It is essentially that the large number of public entities and their operating cost are reduced and made sustainable. Otherwise, their services must be either paid for by higher taxes with adverse consequences for growth. Strong government leadership is critical, underpinned by holding SOE managers accountable for implementation of financial and restructuring plans. Divestment and consolidation of the large number of entities should also be a priority. It would reduce the administrative burden of SOEs while possibly provide income that could be used to reduce debt.

32. **Swift action is required to eliminate arrears.** The continued increase in arrears inhibits private sector operations and is impeding tax collections. The budget process needs to be improved by strengthening cash forecasting capabilities, imposing hard spending ceilings that are revised if revenue shortfalls occur, and strengthening SOE oversight. A reduction in arrears to SOEs and the private sector should improve their liquidity and support their operations. In this connection, the government should ensure its own prompt payment to the NIS.

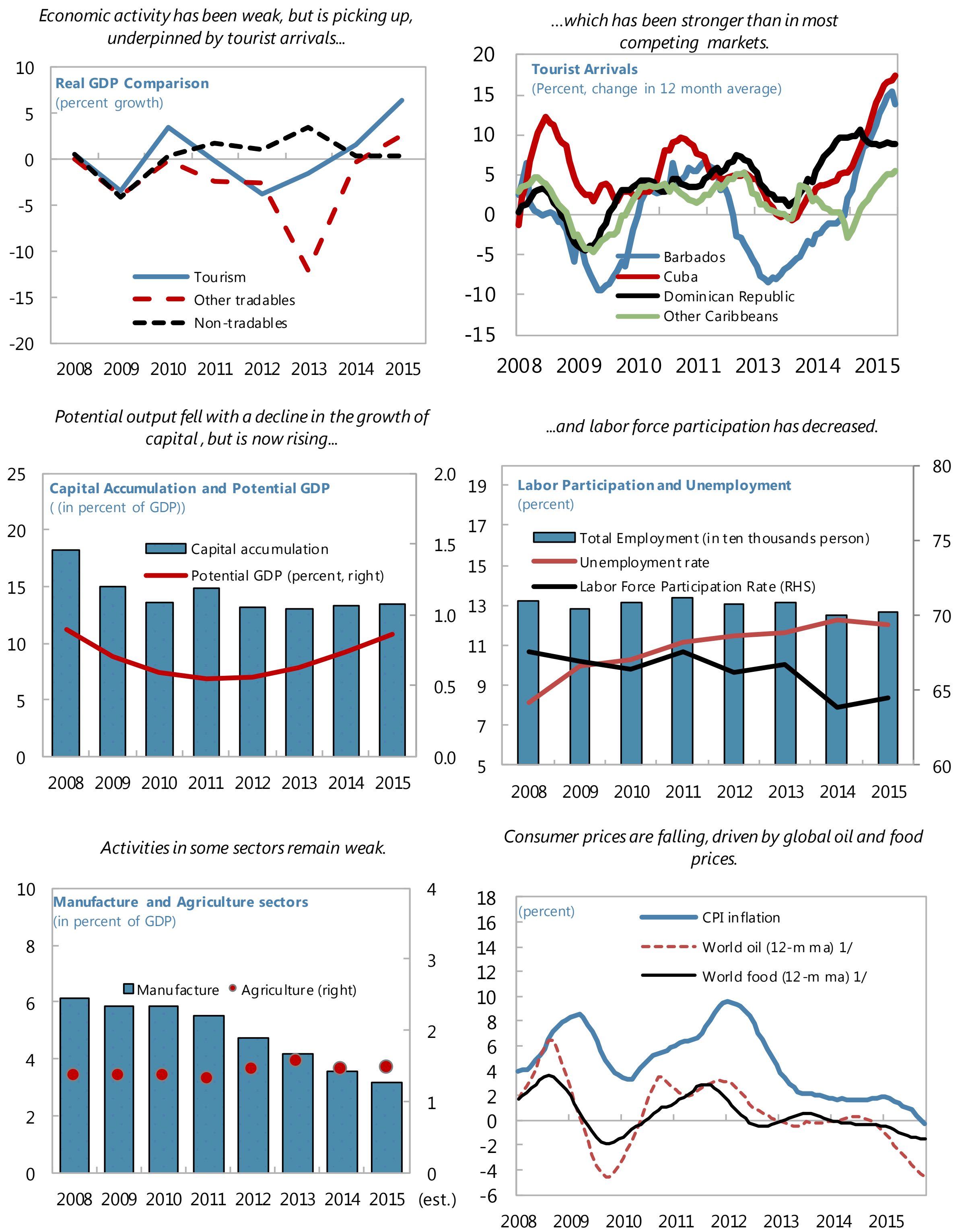
33. **Monetary policy needs to be consistent with the exchange rate peg.** Direct central bank financing of the government is a significant macro-financial risk and is incompatible with a fixed exchange rate. Interest rates need to adjust in line with U.S. rates to reduce pressure on the peg.

34. **While the financial system is stable, vigilance is warranted.** Bank capital-asset ratios are strong and stress testing indicates they are robust to a significant increase in NPLs. Credit unions have broad membership and should be monitored closely in light of their importance to consumers. Further efforts are needed to address FSAP Update AML/CFT recommendations and prepare for the upcoming CFATF assessment.

35. **Improving the quality of data should be a priority.** While data is adequate for surveillance, large shortcomings complicate understanding of macroeconomic developments and may lead to inadequate policies. Strengthening capacity and methodologies is critical to resolving the large discrepancies between the current and constant-price based GDP, and improving the measurement of inflation. This would also strengthen the timeliness and reliability of statistics.

36. **It is recommended that the next Article IV consultation with Barbados be held on the standard 12-month cycle.**

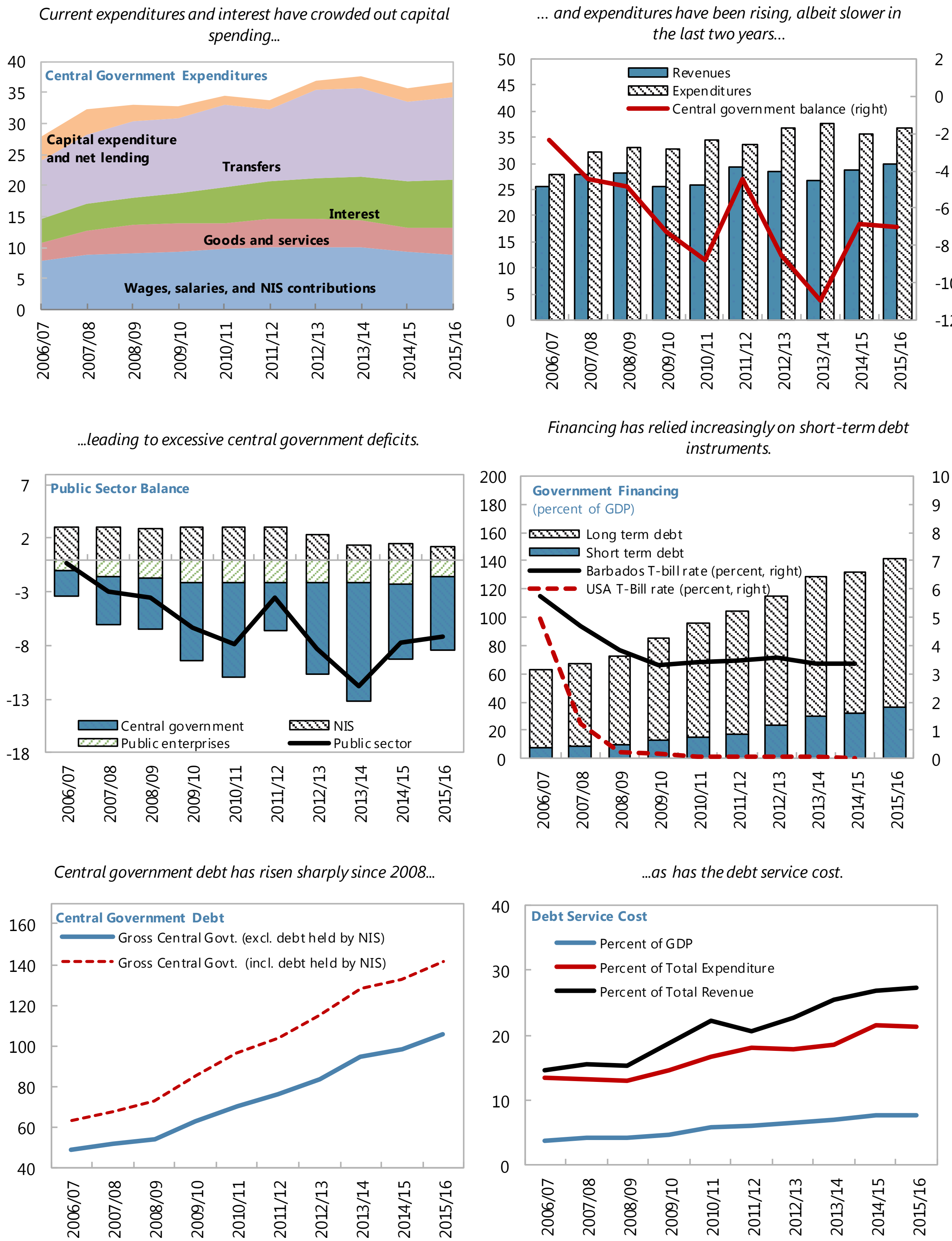
Figure 1. Barbados: Real Sector Developments



Sources: Central Bank of Barbados; Invest Barbados; and World Economic Outlook database.
1/ Scaled by a factor of 10.

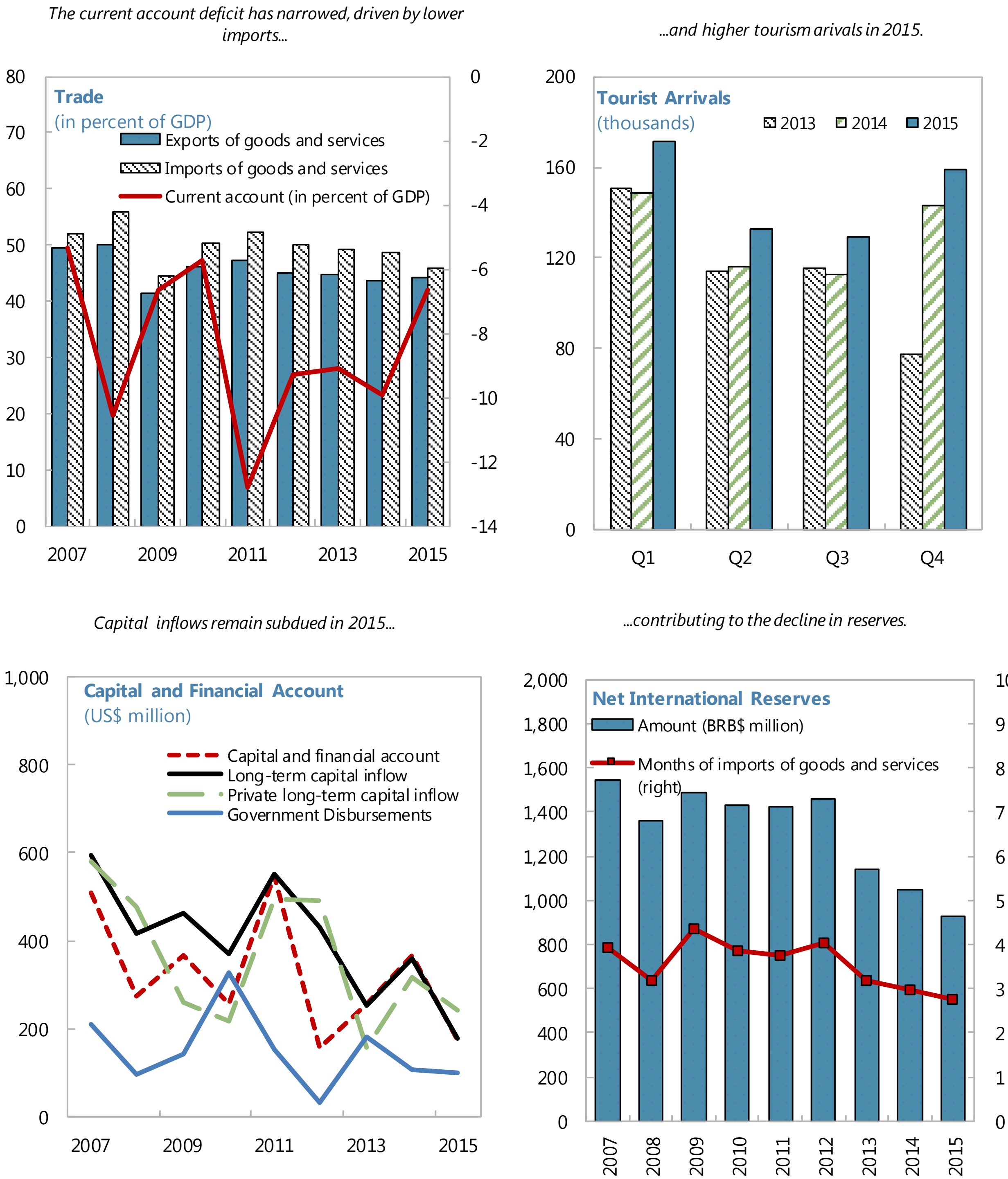
Figure 2. Barbados: Fiscal Sector Developments

(In percent of GDP, unless otherwise indicated)



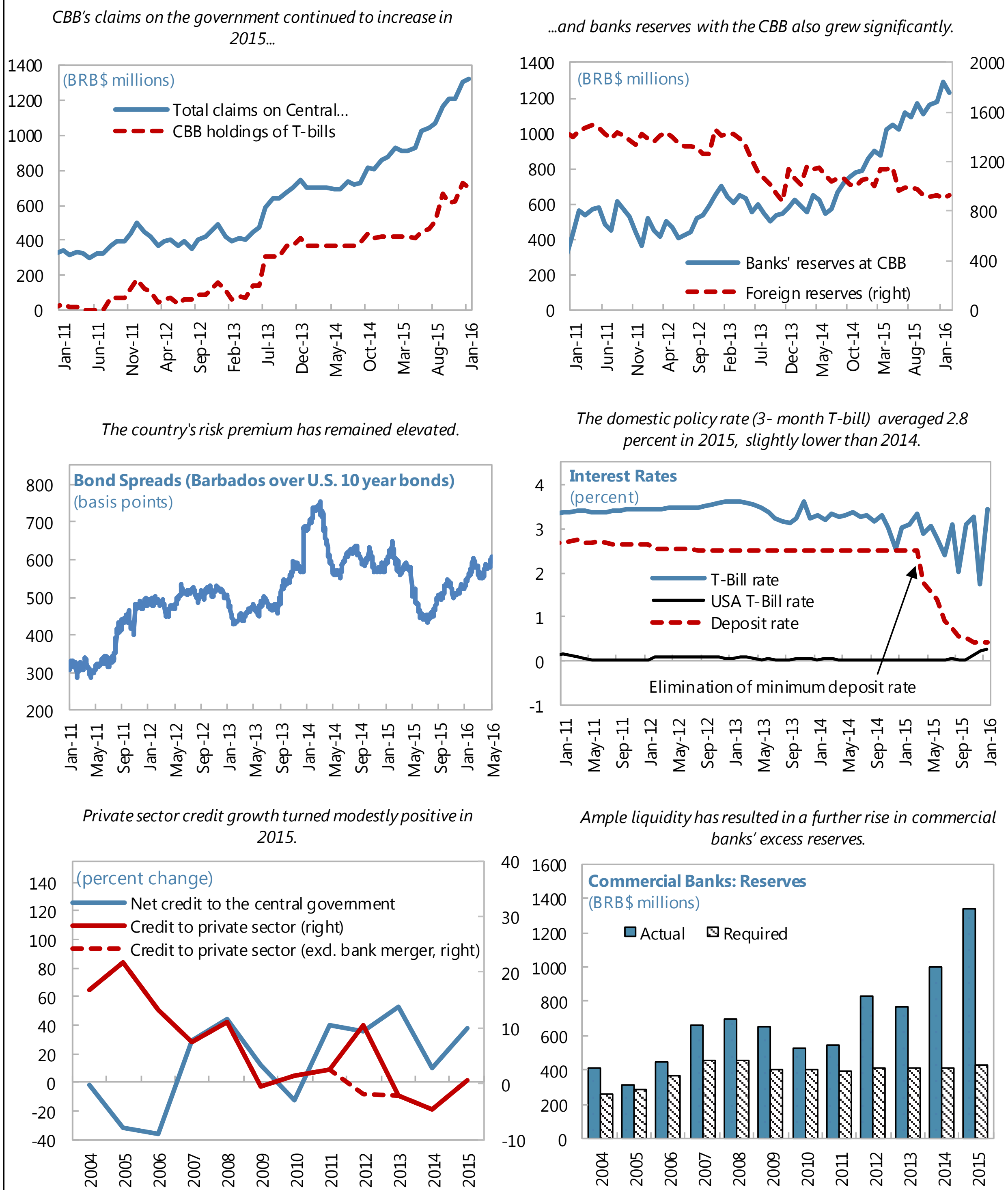
Sources: Central Bank of Barbados and Fund staff estimates and projections.

Figure 3. Barbados: External Sector Developments



Sources: Central Bank of Barbados and Caribbean Tourism Organization.

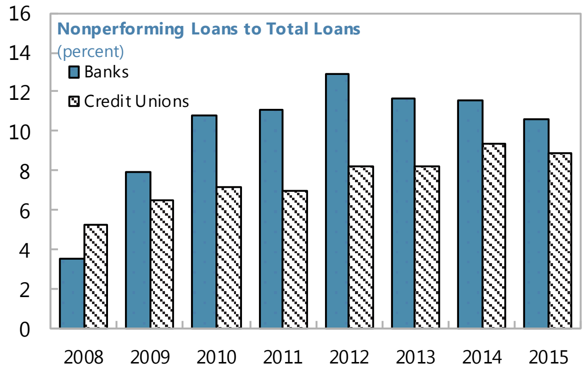
Figure 4. Barbados: Monetary Sector Developments



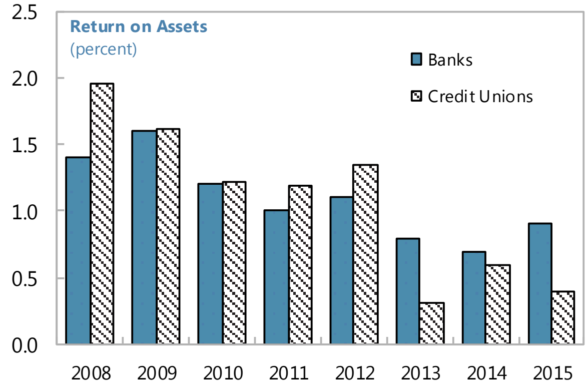
Sources: Central Bank of Barbados and Bloomberg.

Figure 5. Barbados: Financial Sector Developments

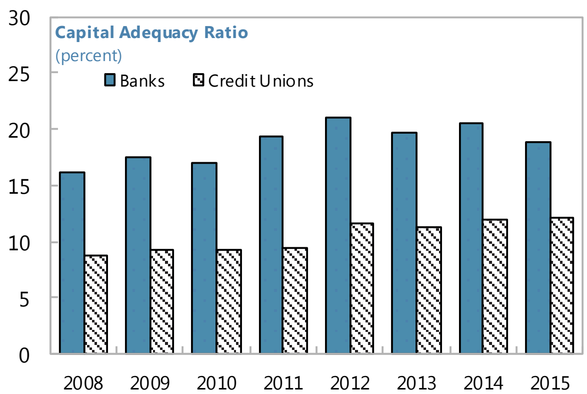
With the modest economic improvement in 2015, banks' NPL's are slowly coming down ...



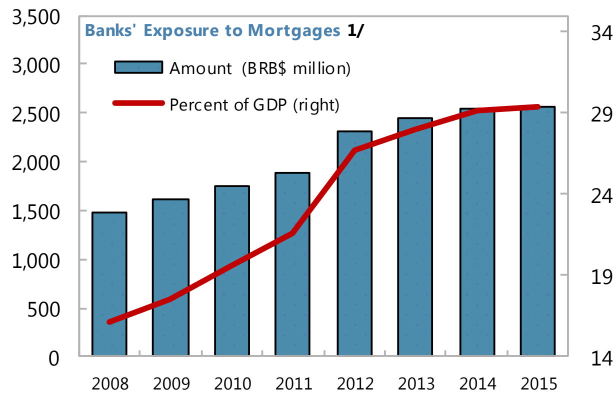
...though the profitability of financial institutions remains weak.



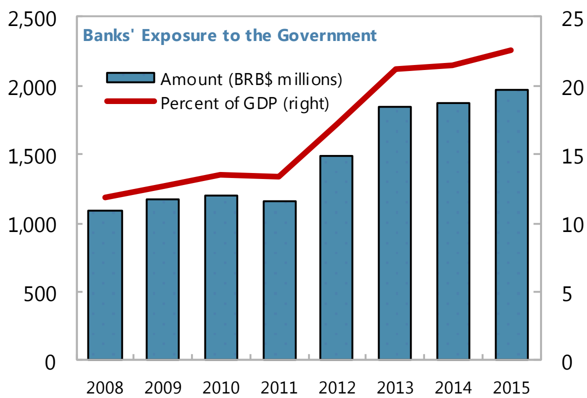
Capitalization ratios remain very high, providing buffers against shocks.



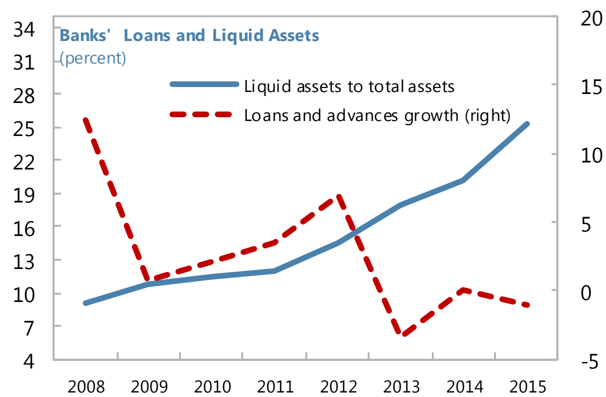
Mortgage growth was flat in 2015...



...while the sector's exposure to the government has increased significantly.

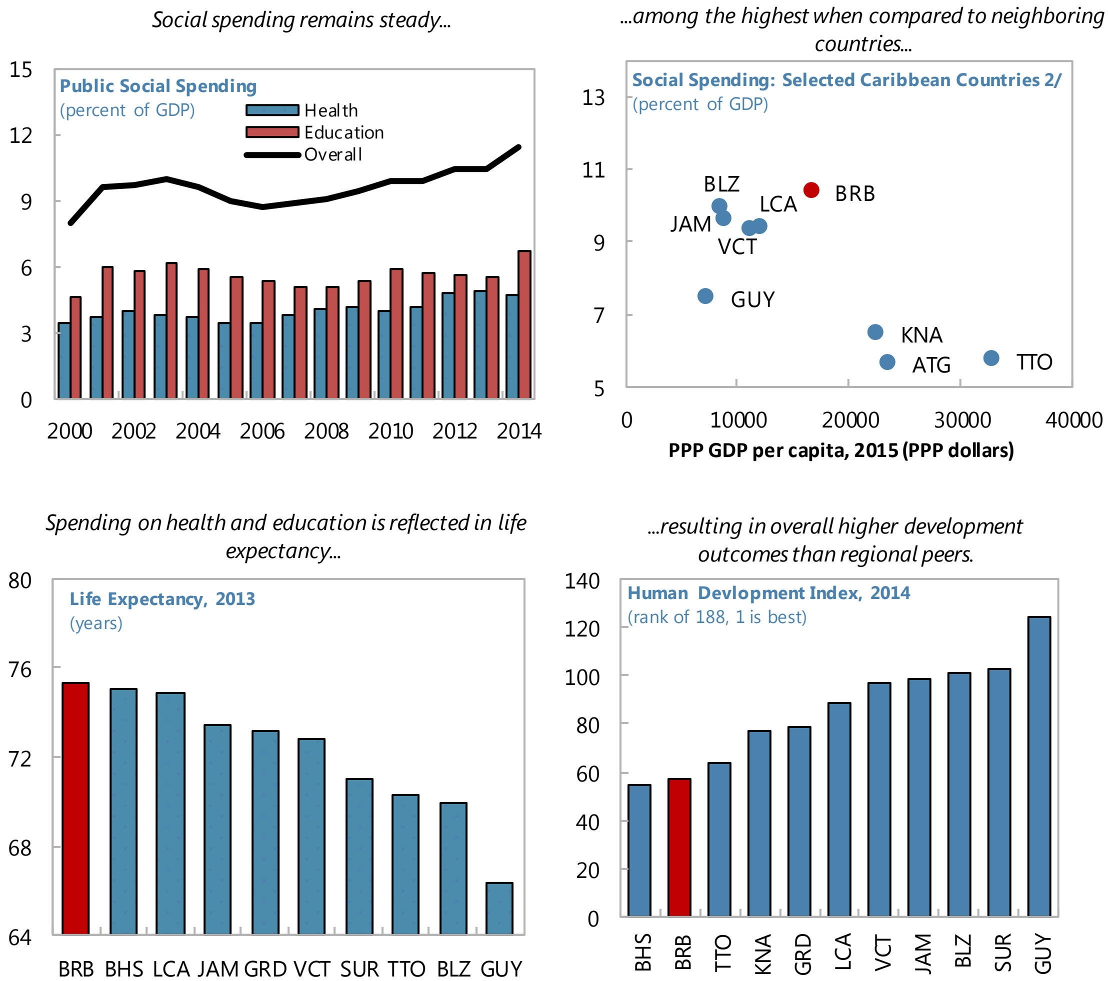


With weak loan growth, banks' liquid assets to total assets have increased.



Sources: Central Bank of Barbados.
1/ Growth in 2012 reflects merger of a commercial bank and trust company.

Figure 6. Barbados: Social Development Indicators 1/



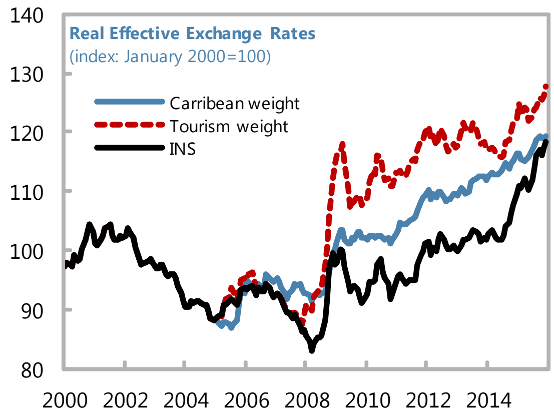
Source: World Bank, World Development Indicators; United Nations, International Human Development Indicators; and Fund staff calculations.

1/ BHS refers to The Bahamas, BRB to Barabdos, BLZ to Belize, GRD to Grenada, GUY to Guyana, JAM to Jamaica, LCA to St. Lucia, VCT to St. Vincent and the Grenadines, SUR to Suriname, TTO to Trinidad and Tobago.

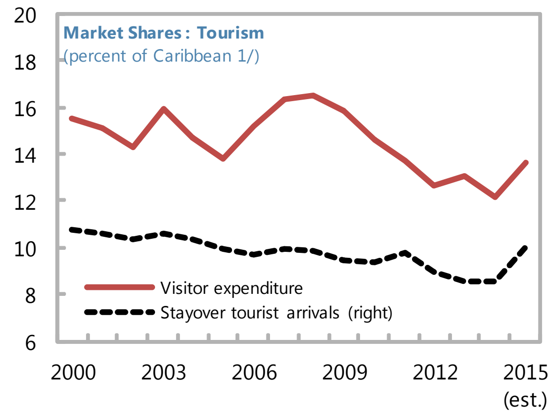
2/ Social spending includes education and health expenditure. Education spending is latest available, health spending is 2013.

Figure 7. Barbados: Competitiveness Indicators

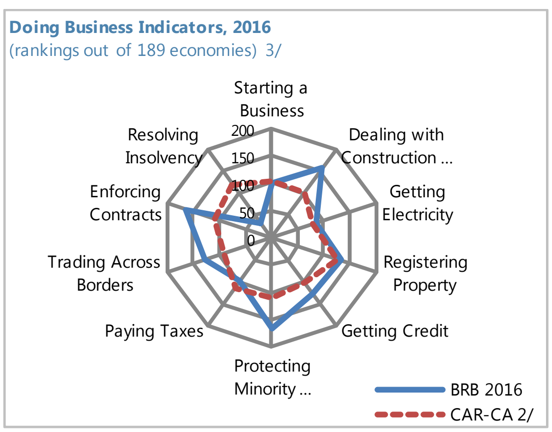
Barbados' effective exchange rate has appreciated since 2008...



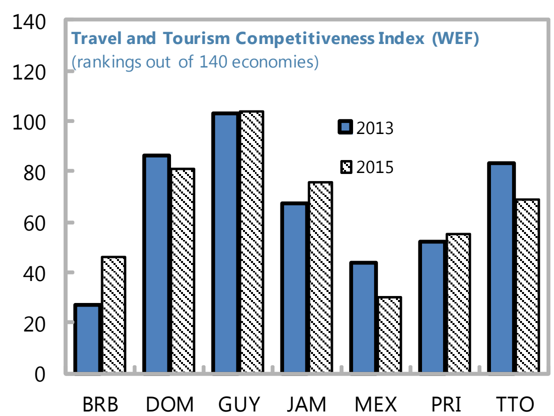
... and it has been losing market share to other Caribbean destinations.



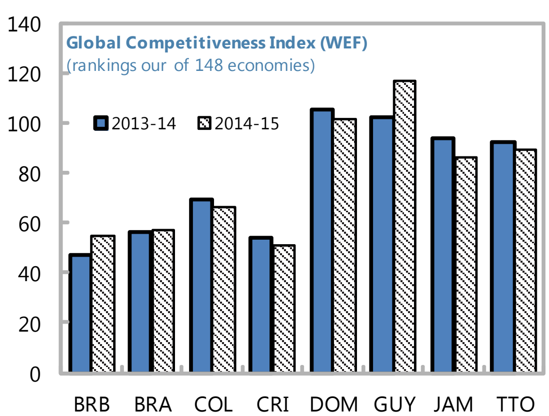
Barbados falls behind on "Doing Business Indicators".



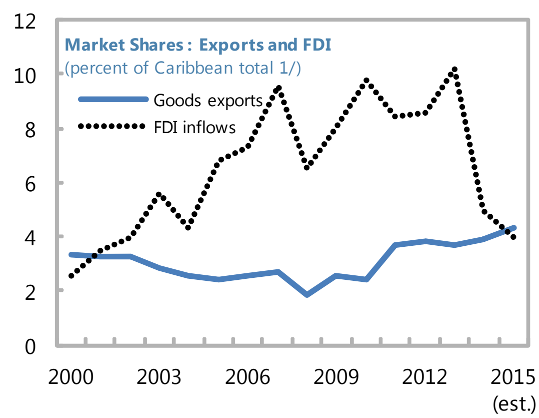
Barbados ranking in the Tourism Competitiveness Index has declined....



... as has its ranking in the Global competitiveness Index



Its share of the capital flows has also declined.



Sources: Central Bank of Barbados; International Financial Statistics; World Economic Outlook; World Bank's Doing Business Report 2015; World Economic Forum (WEF); and Fund staff estimates.
1/ Sum of 13 selective Caribbean countries.
2/These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.
3/ Simple average of Caribbean and Central American regions.

Table 1. Barbados: Selected Economic, Financial, and Social Indicators

I. Social and Demographic Indicators (most recent year)

Population (2013 est., millions)	0.3	Adult literacy rate	99.7
Per capita GDP (2016 est., US$)	15,879	Poverty rate (individual, 2010)	19.3
Life expectancy at birth in years (2013)	75.3	Gini coefficient (2010)	47.0
Rank in UNDP Development Index (2014)	57	Unemployment rate (June 2014)	11.9

Main products, services and exports: tourism, financial services, rum, sugar, and chemicals.

II. Economic Indicators

	2013	2014	Est. 2015	Projection 2016	2017
(Annual percentage change)					
Output, prices, and employment 1/					
Real GDP	0.0	0.2	0.8	2.1	2.3
CPI inflation (average)	1.8	1.9	-1.1	-0.1	1.6
CPI inflation (end of period)	1.1	2.3	-2.5	0.9	2.3
External sector					
Exports of goods and services	0.2	-3.2	1.7	1.8	3.6
Imports of goods and services	-1.2	-1.5	-5.1	-2.5	5.1
Real effective exchange rate (average)	1.1	2.1	9.0	...	...
Money and credit					
Net domestic assets	13.0	3.1	3.0	1.2	1.3
Of which: Private sector credit	-2.2	-4.6	0.5	2.6	3.3
Broad money	6.2	2.1	3.7	1.2	2.0
(In percent of GDP, unless otherwise indicated)					
Public finances (fiscal year) 2/					
Central government					
Revenue and grants	26.7	28.8	29.7	30.4	30.4
Expenditure	37.7	35.6	36.7	36.8	36.8
Interest	7.0	7.6	7.7	8.3	8.6
Balance	-11.0	-6.9	-7.0	-6.4	-6.3
Of which: Primary balance	-4.0	0.7	0.7	2.0	2.3
Public Debt (fiscal year) 2/					
Central government gross debt (excludes NIS holdings)	94.3	98.0	105.5	106.0	106.7
External	31.6	32.0	31.0	30.3	29.5
Domestic	62.7	66.1	74.5	75.7	77.3
Central government gross debt (includes NIS holdings)	128.5	132.3	141.6	142.7	143.6
Balance of payments					
Current account	-9.1	-9.9	-6.7	-5.6	-6.0
Capital and financial account	5.9	8.4	4.0	5.7	6.8
Of which:					
Official capital	2.2	1.0	-1.4	1.2	0.7
Private capital	3.4	8.0	6.8	4.6	6.1
Of which: Long-term flows	3.6	7.3	5.5	6.1	6.1
Overall balance	-3.5	-1.0	-1.3	0.1	0.8
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	2.0	...	...
Net international reserves (US$ millions)	571.9	526.0	463.5	468.6	505.8
In months of imports	3.2	3.0	2.8	2.9	3.0
Nominal GDP (BDS$ millions) 1/	8,742	8,705	8,729	8,903	9,254

Sources: Barbados authorities; UNDP Human Development Report; Barbados Country Assessment of Living Conditions 2010 (December 2012); and Fund staff estimates and projections.

1/ Staff have identified inconsistencies in the constant and current price GDP series. The Barbados Statistics Service is working to address these issues.

2/ Fiscal year is from April to March. For example, 2014 refers to April 2014 to March 2015.

Table 2. Barbados: Central Government Operations (Baseline) 1/

(in millions of Barbados dollars)

	2013/14	2014/15	Est. 2015/16	Projections 2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Central government balance	**-959**	**-600**	**-612**	**-572**	**-591**	**-647**	**-730**	**-777**	**-825**
Total revenue	**2,334**	**2,506**	**2,608**	**2,738**	**2,847**	**2,964**	**3,081**	**3,196**	**3,291**
Current revenue	2,330	2,450	2,591	2,711	2,819	2,934	3,050	3,164	3,259
Tax revenue	2,156	2,325	2,475	2,587	2,690	2,800	2,911	3,019	3,110
Income and profits	540	665	718	756	786	818	851	882	909
Goods and services	1,241	1,239	1,295	1,357	1,411	1,469	1,527	1,584	1,632
Taxes on property	156	155	186	191	198	206	214	222	229
Taxes on international trade	194	223	230	236	245	255	265	275	283
Other (levies, stamp duties)	26	44	46	47	49	51	53	55	57
Nontax revenue	173	125	115	124	129	134	140	145	149
Capital revenue and grants	5	56	17	27	28	29	30	31	32
Total expenditure	**3,293**	**3,105**	**3,220**	**3,310**	**3,438**	**3,611**	**3,811**	**3,973**	**4,116**
Current expenditure	3,124	2,914	3,006	3,068	3,213	3,407	3,598	3,753	3,889
Wages, salaries and NIS contributions	872	810	787	820	853	888	923	957	986
Goods and services	382	340	378	460	478	498	517	537	553
Interest	609	662	673	749	801	896	989	1,045	1,101
Transfers	1,261	1,101	1,168	1,039	1,081	1,125	1,169	1,213	1,249
Of which:									
Subsidies	81	49	61	37	38	40	41	43	44
Grants to public institutions	776	678	714	650	675	703	732	759	782
Retirement benefits	274	286	313	304	316	329	342	355	366
Capital expenditure and net lending	169	192	214	242	224	204	212	220	227
Overall balance	**-959**	**-600**	**-612**	**-572**	**-591**	**-647**	**-730**	**-777**	**-825**
Of which: Primary balance	-350	63	60	177	211	249	258	268	276
Financing	**959**	**600**	**612**	**572**	**591**	**647**	**730**	**777**	**825**
Foreign financing	322	10	-59	167	31	39	87	127	-52
Disbursement	473	128	219	219	260	260	260	220	340
Amortization	-151	-119	-278	-212	-229	-221	-173	-93	-392
Domestic financing (net)	637	590	671	404	560	608	643	651	877
Central bank	217	341	428	90	233	268	289	283	299
Commercial banks	254	-142	154	90	93	97	101	105	108
National Insurance Scheme	138	57	71	135	140	146	152	157	162
Private non-bank	29	334	19	90	93	97	101	105	308
Others/unidentified financing	0	0	0	0	0	0	0	0	0
Memorandum items:									
Central gov't gross debt (excl. NIS)	8,233	8,538	9,251	9,528	9,979	10,480	11,058	11,678	12,341
Central gov't gross debt (incl. NIS)	11,226	11,527	12,422	12,834	13,424	14,072	14,802	15,579	16,404
Nominal GDP, FY (BDS$ millions)	8,733	8,711	8,773	8,991	9,350	9,733	10,117	10,495	10,808

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year is from April to March.

Table 2. Barbados: Central Government Operations (Baseline) (Concluded) 1/

(In percent of GDP, unless otherwise indicated)

			Est.	Projections					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Central government balance	**-11.0**	**-6.9**	**-7.0**	**-6.4**	**-6.3**	**-6.7**	**-7.2**	**-7.4**	**-7.6**
Total revenue	**26.7**	**28.8**	**29.7**	**30.4**	**30.4**	**30.4**	**30.4**	**30.4**	**30.4**
Current revenue	26.7	28.1	29.5	30.1	30.1	30.1	30.1	30.1	30.1
Tax revenue	24.7	26.7	28.2	28.8	28.8	28.8	28.8	28.8	28.8
Income and profits	6.2	7.6	8.2	8.4	8.4	8.4	8.4	8.4	8.4
Goods and services	14.2	14.2	14.8	15.1	15.1	15.1	15.1	15.1	15.1
Taxes on property	1.8	1.8	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Taxes on international trade	2.2	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Other (levies, stamp duties)	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Nontax revenue	2.0	1.4	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Capital revenue and grants	0.1	0.6	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Total expenditure	**37.7**	**35.6**	**36.7**	**36.8**	**36.8**	**37.1**	**37.7**	**37.9**	**38.1**
Current expenditure	35.8	33.4	34.3	34.1	34.4	35.0	35.6	35.8	36.0
Wages, salaries and NIS contributions	10.0	9.3	9.0	9.1	9.1	9.1	9.1	9.1	9.1
Goods and services	4.4	3.9	4.3	5.1	5.1	5.1	5.1	5.1	5.1
Interest	7.0	7.6	7.7	8.3	8.6	9.2	9.8	10.0	10.2
Transfers	14.4	12.6	13.3	11.6	11.6	11.6	11.6	11.6	11.6
Of which:									
Subsidies	0.9	0.6	0.7	0.4	0.4	0.4	0.4	0.4	0.4
Grants to public institutions	8.9	7.8	8.1	7.2	7.2	7.2	7.2	7.2	7.2
Retirement benefits	3.1	3.3	3.6	3.4	3.4	3.4	3.4	3.4	3.4
Capital expenditure and net lending	1.9	2.2	2.4	2.7	2.4	2.1	2.1	2.1	2.1
Overall balance	**-11.0**	**-6.9**	**-7.0**	**-6.4**	**-6.3**	**-6.7**	**-7.2**	**-7.4**	**-7.6**
Of which: Primary balance	-4.0	0.7	0.7	2.0	2.3	2.6	2.6	2.6	2.6
Financing	**11.0**	**6.9**	**7.0**	**6.4**	**6.3**	**6.7**	**7.2**	**7.4**	**7.6**
Foreign financing	3.7	0.1	-0.7	1.9	0.3	0.4	0.9	1.2	-0.5
Disbursement	5.4	1.5	2.5	2.4	2.8	2.7	2.6	2.1	3.1
Amortization	-1.7	-1.4	-3.2	-2.4	-2.5	-2.3	-1.7	-0.9	-3.6
Domestic financing (net)	7.3	6.8	7.7	4.5	6.0	6.2	6.4	6.2	8.1
Central bank	2.5	3.9	4.9	1.0	2.5	2.7	2.9	2.7	2.8
Commercial banks	2.9	-1.6	1.8	1.0	1.0	1.0	1.0	1.0	1.0
National Insurance Scheme	1.6	0.7	0.8	1.5	1.5	1.5	1.5	1.5	1.5
Private non-bank	0.3	3.8	0.2	1.0	1.0	1.0	1.0	1.0	2.9
Others/unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Central gov't gross debt (excl. NIS)	94.3	98.0	105.5	106.0	106.7	107.7	109.3	111.3	114.2
Central gov't gross debt (incl. NIS)	128.5	132.3	141.6	142.7	143.6	144.6	146.3	148.4	151.8
Nominal GDP, FY (BDS$ millions)	8,733	8,711	8,773	8,991	9,350	9,733	10,117	10,495	10,808

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year (April–March). Ratios expressed relative to fiscal year GDP.

Table 3. Barbados: Central Government Debt (Baseline) 1/

			Est.	Projection					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
(In millions of Barbados dollars)									
Central gov't gross debt (incl. NIS holdings	**11,226**	**11,527**	**12,422**	**12,834**	**13,424**	**14,072**	**14,802**	**15,579**	**16,404**
External 2/	2,756	2,783	2,715	2,723	2,754	2,793	2,879	3,006	2,954
Domestic	8,470	8,743	9,706	10,111	10,671	11,279	11,922	12,573	13,450
Central gov't gross debt (excl. NIS holding	**8,233**	**8,538**	**9,251**	**9,528**	**9,979**	**10,480**	**11,058**	**11,678**	**12,341**
External 2/	2,756	2,783	2,715	2,723	2,754	2,793	2,879	3,006	2,954
Domestic	5,477	5,754	6,536	6,806	7,225	7,687	8,179	8,672	9,388
			2.186						
(In percent of GDP)									
Central gov't gross debt (incl. NIS holdings	**128.5**	**132.3**	**141.6**	**142.7**	**143.6**	**144.6**	**146.3**	**148.4**	**151.8**
External 2/	31.6	32.0	31.0	30.3	29.5	28.7	28.5	28.6	27.3
Domestic	97.0	100.4	110.6	112.5	114.1	115.9	117.8	119.8	124.4
Short term	30.4	32.3	36.6	40.4	44.8	49.5	54.4	59.3	66.5
Long term	98.2	100.0	104.9	102.3	98.7	95.1	91.9	89.1	85.3
Central gov't gross debt (excl. NIS holding	**94.3**	**98.0**	**105.5**	**106.0**	**106.7**	**107.7**	**109.3**	**111.3**	**114.2**
External 2/	31.6	32.0	31.0	30.3	29.5	28.7	28.5	28.6	27.3
Domestic	62.7	66.1	74.5	75.7	77.3	79.0	80.8	82.6	86.9
Memorandum items:									
National Insurance Scheme	34.3	34.3	36.1	36.8	36.9	36.9	37.0	37.2	37.6
Treasury bills	2.6	2.2	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Debentures	31.7	32.1	34.7	35.3	35.3	35.4	35.5	35.7	36.1

Sources: Ministry of Finance; Central Bank of Barbados; and Fund staff estimates and projections.

1/ Fiscal year (April–March). Ratios expressed relative to fiscal-year GDP.

2/ External debt is all medium- and long-term debt.

Table 4. Barbados: Balance of Payments (Baseline)

(In millions of U.S. dollars)

			Est.			Projection			
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Current account	**-397**	**-432**	**-291**	**-251**	**-278**	**-300**	**-341**	**-368**	**-404**
Exports	1,958	1,895	1,927	1,962	2,032	2,108	2,182	2,256	2,324
Exports of goods	786	792	801	803	821	843	872	901	923
Of which: Re-exports	137	139	141	143	146	151	156	160	165
Imports	2,147	2,115	2,007	1,956	2,056	2,140	2,243	2,335	2,429
Imports of goods	1,681	1,652	1,537	1,472	1,554	1,618	1,702	1,775	1,850
Of which : Oil	512	381	239	208	244	258	274	289	302
Services (net)	706	641	657	675	709	744	769	796	823
Credit	1,172	1,103	1,126	1,159	1,211	1,265	1,310	1,355	1,402
Of which: Travel (credit)	964	888	920	952	995	1,040	1,076	1,114	1,153
Debit	466	462	469	484	502	521	541	560	579
Investment income (net)	-195	-197	-213	-220	-236	-259	-269	-279	-289
Credit	249	263	256	256	250	246	256	265	275
Debit	443	460	469	476	486	504	525	544	564
Of which: Interest on public debt	69	82	83	82	85	90	94	98	103
Current transfers (net)	-13	-14	2	-37	-17	-10	-10	-10	-11
Credit	70	70	90	53	75	87	90	94	97
Debit	83	84	88	90	93	96	100	104	108
Capital and financial account	**257**	**367**	**174**	**256**	**315**	**312**	**343**	**375**	**326**
Long-term	253	358	179	325	315	312	343	375	326
Public sector	97	42	-63	53	33	19	37	58	-3
Private sector	155	316	242	272	282	294	306	317	329
Of which: FDI flows	155	316	242	272	282	294	306	317	329
Short-term	4	9	-4	-69	0	0	0	0	0
Public sector	0	0	0	0	0	0	0	0	0
Private sector	4	9	-4	-69	0	0	0	0	0
Unidentified financing 1/	…	…	0	0	0	0	0	0	0
Errors and omissions	**-12**	**23**	**60**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**-152**	**-41**	**-56**	**5**	**37**	**13**	**2**	**7**	**-78**
Reserve movements (- increase)	**152**	**41**	**56**	**-5**	**-37**	**-13**	**-2**	**-7**	**78**
Memorandum items:									
Current account (percent of GDP) 2/	-9.1	-9.9	-6.7	-5.6	-6.0	-6.2	-6.8	-7.1	-7.5
Current account after FDI (percent of GDP)	-5.5	-2.7	-1.1	0.5	0.1	-0.1	-0.7	-1.0	-1.4
Exports of G&S (annual growth rate)	0.2	-3.2	1.7	1.8	3.6	3.7	3.5	3.4	3.0
Imports of G&S (annual growth rate)	-1.2	-1.5	-5.1	-2.5	5.1	4.0	4.8	4.1	4.0
Change in commercial banks assets	82	-12	75	0	0	0	0	0	0
Net international reserves (US$ million)	572	526	464	469	506	518	521	528	450
In months of imports	3.2	3.0	2.8	2.9	3.0	2.9	2.8	2.7	2.2

Sources: Central Bank of Barbados; and Fund staff estimates and projections.

1/ Unidentified financing to keep reserves level at 3 months of import cover.
2/ 2012 figure revised based on updated survey data.

Table 5. Barbados: Summary Monetary Survey (Baseline)

			Est.	Projection					
	2013	2014	2015	2016	2017	2018	2019	2020	2021
				(In millions of Barbados dollars)					
Central Bank of Barbados									
Net foreign assets	1,144	1,052	927	937	1,012	1,037	1,042	1,056	900
Assets	1,192	1,106	957	968	1,042	1,067	1,072	1,087	930
Liabilities	-48	-54	-31	-31	-31	-31	-31	-31	-31
Net domestic assets	234	446	1,033	994	767	586	408	362	571
Of which: Claims on Central government	744	861	1,302	1,391	1,588	1,847	2,131	2,416	2,711
Monetary base	1,378	1,498	1,959	1,932	1,779	1,623	1,450	1,418	1,471
Commercial banks									
Net foreign assets	-364	-323	-121	-121	-121	-121	-121	-121	-121
Net domestic assets	7,693	7,803	7,875	7,932	8,082	8,251	8,426	8,737	9,056
Liabilities to the nonfinancial private sector	7,329	7,480	7,754	7,811	7,961	8,130	8,305	8,616	8,935
Monetary survey									
Net foreign assets	780	729	805	816	891	916	921	935	779
Net domestic assets	7,054	7,271	7,492	7,583	7,678	7,845	8,028	8,349	8,849
Net credit to the public sector	1,915	2,178	2,790	2,743	2,655	2,632	2,633	2,739	3,007
Central government	1,825	2,003	2,753	2,706	2,618	2,594	2,596	2,702	2,969
Rest of public sector	268	314	224	224	224	224	224	224	224
NIS	-178	-138	-187	-187	-187	-187	-187	-187	-187
Credit to the private sector 1/	5,622	5,364	5,392	5,531	5,713	5,903	6,086	6,300	6,533
Credit to rest of financial system	-504	-554	-744	-744	-744	-744	-744	-744	-744
Other items (net) 2/	21	282	54	54	54	54	54	54	54
Broad money (M2, liabilities to the private sector)	7,834	8,000	8,297	8,399	8,569	8,760	8,949	9,284	9,628
Narrow money	2,471	2,705	3,169	3,209	3,273	3,346	3,418	3,547	3,678
Currency	505	519	543	588	608	631	644	668	693
Demand deposits	1,966	2,186	2,626	2,621	2,665	2,716	2,774	2,878	2,985
Quasi-money	5,363	5,295	5,128	5,191	5,296	5,414	5,531	5,738	5,950
Time deposits	1,094	944	786	796	812	830	848	880	912
Saving deposits	4,269	4,351	4,342	4,395	4,484	4,584	4,683	4,858	5,038
				(Changes in percent of beginning-of-period liabilities to the private sector)					
Monetary survey									
Net foreign assets	-4.8	-0.7	1.0	0.1	0.9	0.3	0.1	0.2	-1.7
Net domestic assets	11.0	2.8	2.8	1.1	1.1	1.9	2.1	3.6	5.4
Net credit to public sector	10.7	3.4	7.7	-0.6	-1.0	-0.3	0.0	1.2	2.9
Of which: central government	8.6	2.3	9.4	-0.6	-1.0	-0.3	0.0	1.2	2.9
Credit to private sector 1/	-1.7	-3.3	0.4	1.7	2.2	2.2	2.1	2.4	2.5
Other items (net) 2/	0.3	3.3	-2.9	0.0	0.0	0.0	0.0	0.0	0.0
				(In percent change)					
Monetary survey									
Net domestic assets	13.0	3.1	3.0	1.2	1.3	2.2	2.3	4.0	6.0
Of which:									
Private sector credit 1/	-2.2	-4.6	0.5	2.6	3.3	3.3	3.1	3.5	3.7
Public sector credit	70.3	13.8	28.1	-1.7	-3.2	-0.9	0.1	4.0	9.8
Broad money	6.2	2.1	3.7	1.2	2.0	2.2	2.2	3.7	3.7

Sources: Central Bank of Barbados; and Fund staff estimates and projections.

1/ Private sector credit growth in 2012 reflects the merger of a commercial bank and a trust company. After excluding this impact, credit to the non-financial private sector decreased by 1.9 percent.

2/ Line item "net unclassified assets" in CBB Monetary Survey. CBB indicates that this line is a residual item, the nature of which is not disclosed.

Table 6. Barbados: Medium-Term Macroeconomic Framework (Baseline)
(In percent of GDP, unless otherwise indicated)

				Est.	Projection					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
(Annual percentage change)										
National accounts and prices 1/										
Real GDP	0.3	0.0	0.2	0.8	2.1	2.3	1.7	1.5	1.2	1.2
Nominal GDP	-0.6	0.9	-0.4	0.3	2.0	3.9	4.1	4.0	3.7	3.7
CPI inflation (average)	4.5	1.8	1.9	-1.1	-0.1	1.6	2.4	2.5	2.5	2.5
CPI inflation (end of period)	2.4	1.1	2.3	-2.5	0.9	2.3	2.4	2.5	2.5	2.4
External sector										
Exports of goods and services, value	-5.3	0.2	-3.2	1.7	1.8	3.6	3.7	3.5	3.4	3.0
Imports of goods and services, value	-4.8	-1.2	-1.5	-5.1	-2.5	5.1	4.0	4.8	4.1	4.0
Real effective exchange rate (average)	106.3	107.5	109.7	119.6	...	...	...	...	...	...
Terms of trade	0.4	0.1	2.4	16.2	3.3	-4.1	-0.8	-0.8	-0.8	-0.6
Money and credit (end of period)										
Net domestic assets	8.4	13.0	3.1	3.0	1.2	1.3	2.2	2.3	4.0	6.0
Of which: Private sector credit 2/	10.5	-2.2	-4.6	0.5	2.6	3.3	3.3	3.1	3.5	3.7
Broad money	6.3	6.2	2.1	3.7	1.2	2.0	2.2	2.2	3.7	3.7
Velocity (GDP relative to broad money)	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
(In percent of GDP, unless otherwise indicated)										
Public finances (fiscal year) 3/										
Central government										
Revenue and grants	28.3	26.7	28.8	29.7	30.4	30.4	30.4	30.4	30.4	30.4
Expenditure	36.8	37.7	35.6	36.7	36.8	36.8	37.1	37.7	37.9	38.1
Of which: Interest	6.6	7.0	7.6	7.7	8.3	8.6	9.2	9.8	10.0	10.2
Balance	-8.5	-11.0	-6.9	-7.0	-6.4	-6.3	-6.7	-7.2	-7.4	-7.6
Debt (fiscal year) 3/										
Central government gross debt (excludes NIS holdings)	83.6	94.3	98.0	105.5	106.0	106.7	107.7	109.3	111.3	114.2
External	27.7	31.6	32.0	31.0	30.3	29.5	28.7	28.5	28.6	27.3
Domestic	55.9	62.7	66.1	74.5	75.7	77.3	79.0	80.8	82.6	86.9
Central government gross debt (includes NIS holdings)	115.2	128.5	132.3	141.6	142.7	143.6	144.6	146.3	148.4	151.8
Savings and investment										
Gross domestic investment	13.2	13.0	13.0	13.0	14.9	14.4	14.1	13.8	13.6	13.4
Public	2.9	3.2	3.6	3.8	4.1	3.9	3.6	3.5	3.5	3.5
Private	10.4	9.8	9.4	9.1	10.8	10.5	10.5	10.3	10.0	9.8
National savings	4.0	4.0	3.1	6.3	9.3	8.4	7.9	7.0	6.5	5.9
Public	-1.0	-7.3	-1.0	-1.5	-3.1	-2.8	-3.0	-3.3	-3.1	-3.1
Private	4.9	11.3	4.1	7.8	12.4	11.2	10.9	10.3	9.5	8.9
External savings	9.3	9.1	9.9	6.7	5.6	6.0	6.2	6.8	7.1	7.5
Balance of payments										
Current account	-9.3	-9.1	-9.9	-6.7	-5.6	-6.0	-6.2	-6.8	-7.1	-7.5
Capital and financial account	3.6	5.9	8.4	4.0	5.7	6.8	6.5	6.8	7.2	6.0
Official capital (net)	-1.4	2.2	1.0	-1.4	1.2	0.7	0.4	0.7	1.1	-0.1
Private capital (net) 4/	11.3	3.4	8.0	6.8	4.6	6.1	6.1	6.1	6.1	6.1
Of which: Long-term flows	11.3	3.6	7.3	5.5	6.1	6.1	6.1	6.1	6.1	6.1
Overall balance	0.7	-3.5	-1.0	-1.3	0.1	0.8	0.3	0.0	0.1	-1.5
Memorandum items:										
Exchange rate (BDS$/US$)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Net international reserves (US$ millions)	731	572	526	464	469	506	518	521	528	450
In months of imports	4.0	3.2	3.0	2.8	2.9	3.0	2.9	2.8	2.7	2.2
Nominal GDP (BDS$ millions) 1/	8,664	8,742	8,705	8,729	8,903	9,254	9,636	10,023	10,398	10,783

Sources: Barbados authorities; and Fund staff estimates and projections.

1/ Staff have identified inconsistencies in the constant and current price GDP series. The Barbados Statistics Service is working to address these issues.

2/ Private sector credit growth in 2012 is mostly due to the merger of a commercial bank and a trust company. After excluding this impact, credit to the non-financial private sector decreased by 1.9 percent.

3/ Fiscal year is from April to March.

4/ Includes short-term and long-term flows, and errors and omissions.

Table 7. Barbados: Financial Sector Indicators

(In percent)

	2009	2010	2011	2012	2013	2014	2015
Commercial Banks							
Solvency Indicators							
Capital Adequacy Ratio (CAR)	17.5	17.1	19.3	21.0	19.7	20.5	18.9
Liquidity Indicators 1/							
Loan to deposit ratio	65.5	67.2	70.9	73.6	70.0	70.3	65.5
Demand deposits to total deposits	36.6	35.2	32.1	29.3	32.3	33.9	39.6
Domestic demand deposits to total domestic deposits	27.9	27.1	27.6	26.8	29.3	30.9	35.7
Liquid assets, in percent of total assets	10.8	11.5	12.0	14.6	18.0	20.3	25.3
Credit Risk Indicators							
Total assets (growth rate)	-5.6	-1.5	-4.7	11.5 [2/]	2.8	-1.3	4.0
Domestic assets (growth rate)	2.3	0.6	-6.1	6.1 [2/]	6.5	-0.6	3.3
Loans and advances (growth rate)	0.9	0.6	-0.5	-1.1 [2/]	-2.6	-0.4	-0.8
Non-performing loans ratio	7.9	10.8	11.1	12.9	11.7	11.5	10.6
Substandard loans/ Total loans	6.7	9.1	8.7	9.9	8.6	9.0	8.0
Doubtful loans/ Total loans	0.4	1.0	1.8	2.3	2.5	2.0	1.5
Loss Loans / Total loans	0.9	0.7	0.6	0.8	0.6	0.5	1.1
Provisions to non-performing loans	41.5	37.4	32.9	33.9	44.9	47.7	55.5
Foreign Exchange Risk Indicators							
Deposits in Foreign Exchange (in percent of total deposits)	13.3	12.9	6.6	4.9	4.4	4.8	6.7
Profitability Indicators							
Return on Assets (ROA)	1.6	1.1	1.0	1.1	0.8	0.7	0.9
Credit Unions							
Solvency Indicator							
Reserves to Total Liabilities	10.3	10.4	10.7	13.2	13.4	11.9	12.1
Liquidity Indicators							
Loan to deposit ratio	105.2	105.9	107.1	96.2	90.5	92.7	90.8
Credit risk Indicators							
Total assets, annual growth rate	9.1	9.7	5.1	4.3	5.8	6.2	7.3
Loans, annual growth rate	8.0	8.6	6.5	3.2	2.9	7.3	6.5
Nonperforming loans ratio	6.5	7.2	7.1	8.2	8.7	9.4	9.1
Arrears 3-6 months/ Total Loans	2.1	2.1	2.0	1.9	1.9	2.2	2.0
Arrears 6 – 12 months/Total Loans	1.8	1.9	1.6	1.9	1.8	1.5	1.8
Arrears over 12 months/Total Loans	2.7	3.2	3.5	4.4	4.9	5.7	5.2
Provisions to Total loans	1.9	2.2	2.8	3.2	3.3	3.5	2.6
Profitability Indicator							
Return on Assets (ROA)	1.4	1.1	1.1	1.0	0.9	0.6	0.6

Source: Central Bank of Barbados, Financial Services Commission.

1/ Includes foreign components unless otherwise stated.

2/ Reflects removal of financial consolidation.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Impact	Policy Response
Global Risks			
Sharp asset price decline and decompression of credit spreads. Could depress FDI inflows, especially funding for new hotels and residences, leading to reduced construction.	Medium	Medium	Ensure that the recommended fiscal adjustment path remains on track, and accelerate growth-promoting structural reforms to boost investor confidence.
Surge in the US dollar. Could further weaken cost competitiveness, although impact mitigated by large share of trade with the U.S. and dollar pegs of other Caribbean tourist destinations.	High	Medium	Structural measures to improve competitiveness and boost attractiveness to tourists. Strengthen social compact and contain wage increases to reduced competitiveness problems.
Structurally weak growth in key advanced and emerging economies. Tourism sector is sensitive to growth in advanced economies, notably Canada, the U.K. and the U.S	High/ Medium	Medium	Structural measures to improve competitiveness and support development of other sectors.
Reduced financial services by global/regional banks ("de-risking"). While commercial banks are foreign-owned and have not indicated plans to deleverage and/or pull out, a number of firms in the offshore financial center have already lost correspondent services.	Medium	Medium/ High	Strengthen AML/CFT risk-based supervision of the offshore sector; Ensure full compliance with international standards on transparency of tax information; Explore industry initiatives to reduce costs of meeting heightened compliance requirements.
Country-specific risks			
Fiscal financing pressures. Fiscal financing pressures, high borrowing costs, and possible monetization of the deficit raise the risk of a liquidity crisis and/or imperil the currency peg.	High	High	Accelerate the proposed fiscal adjustment to put debt on a downward path to reduce financing requirements and strengthen creditworthiness assessments.
Fiscal slippages. These would reinforce market concerns about fiscal sustainability and default and undermine private sector confidence necessary for investment.	High	High	Step up reform of revenue administration and review expenditure, particularly transfers to state-owned enterprise.
Brexit. Adverse impact on tourism and investment from uncertainties and economic spillovers associated with Brexit.	High	High	Ensure that the recommended fiscal adjustment path remains on track, and accelerate growth-promoting structural reforms to boost investor confidence.
Zika virus. Increase incidents of Zika could adversely impact tourism arrivals and reduce growth.	Medium	Medium	Implement necessary measures to contain the spread of Zika to reduce the possible spread of the virus.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" indicates a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex II. Debt Sustainability Analysis (DSA)

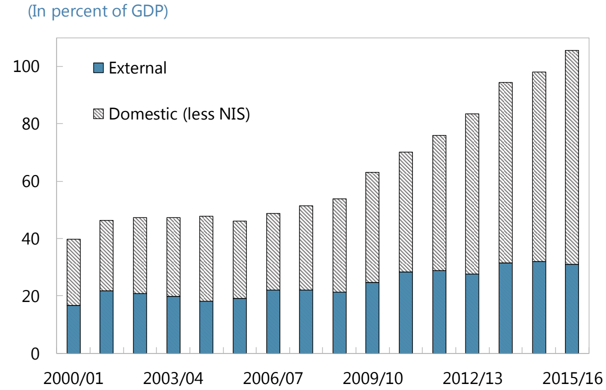
Public debt sustainability risks remain elevated. Central government debt continued to rise rapidly, increasing by 7.5 percent of GDP in FY2015/16 and now exceeds 100 percent of GDP. Public debt is forecast under the baseline scenario to continue to grow to 114 percent of GDP in the medium term. The financing needs generated under the baseline scenario are large and keep growing and, hence, the debt-to-GDP ratio does not stabilize in the next 5 years. Gross financing needs are also very large, and are forecast to significantly increase further over the medium term, reflecting the large magnitude of short-term debt and limited appetite by the market for longer-term instruments. There are sizable downside risks, including from low growth, continued significant recourse to short term debt, rising arrears and contingent liabilities. The baseline debt path is vulnerable to unfavorable shocks from real interest rates, real GDP growth, and the primary balance.

A. Public Debt Sustainability Analysis

Debt structure

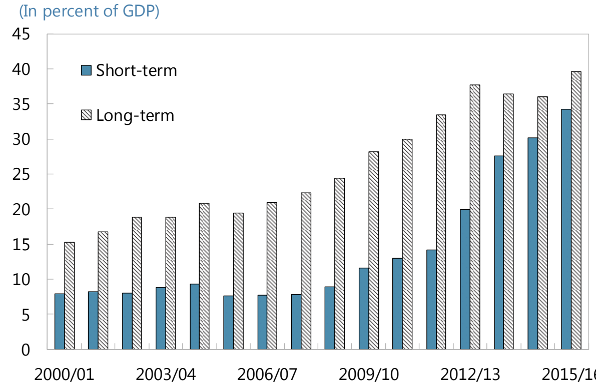
1. **Barbados' central government debt, excluding NIS nearly doubled from 53.9 percent of GDP in FY2008/09 to 105.5 percent in FY2015/16.** The definition of public debt used in this assessment is central government gross debt, excluding government securities held by the NIS[1] and the stock of arrears.[2] With the rapid increase in the debt, there has been an important change in its structure, with an increase in the share of short-term debt from 10.3 percent in FY2008/09 to 36.6 percent in FY2015/16 while the share of debentures remained relatively constant. Domestic debt grew to nearly ¾ of the total debt over the same period while the share of external debt decreased

Central Government Debt
(In percent of GDP)



Sources: Barbados authorities and Fund staff calculations.

Central Government Domestic Debt Excluding NIS
(In percent of GDP)



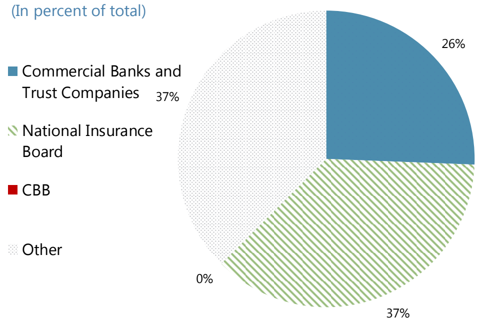
Sources: Barbados authorities and Fund staff calculations.

[1] Public debt obligations held by NIS are both assets and liabilities of the government, and are netted out under the definition prescribed in the IMF public debt statistics manual (see: Public Sector Debt Statistics: Guide for Compliers and Users, 2013). Including government securities held by the NIS, the debt stock increased from 72.8 percent of GDP in FY2008/9 141.6 in FY2015/16.

[2] Staff estimates central government arrears may amount to over 6 percent of GDP in FY2015/16; if accounted for in the DSA analysis the stock of debt would be accordingly higher. The expenditure data is based on approved expenditure, rather than paid, thus on an accrual basis.

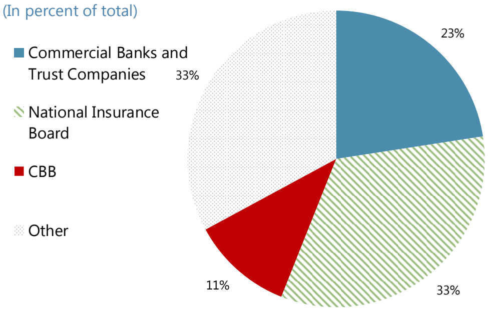
from 39.6 percent of debt in FY2008/09 to 29.4 percent in FY2015/16. The share of commercial banks and trusts has declined to 24.8 percent in FY2015/16 from a high of 27.7 percent in FY2012/13, despite increasing by 96.4 percent since FY2008/09. Central Bank of Barbados holdings of government debt reached 12.2 percent in FY2015/16 reflecting increased monetization of the debt. Government debt held by the NI S has grown from 18.9 percent in FY2008/09 to 36.1 percent at end-FY2015/16. External debt consists largely of bond placements and multilateral borrowing.

Government of Barbados Total Domestic Debt by Institutional Holder, December 2008
(In percent of total)



Sources: Barbados authorities and Fund staff calculations.

Government of Barbados Total Domestic Debt by Institutional Holder, December 2015
(In percent of total)



Sources: Barbados authorities and Fund staff calculations.

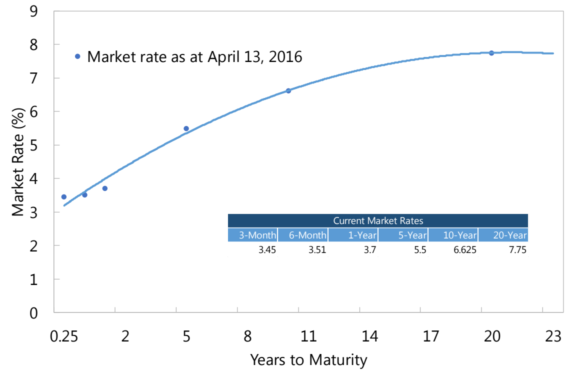
Structure of the Debt

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	Percent of fiscal year GDP							
Central government debt, less NIS	53.9	63.0	70.0	75.9	83.6	94.3	98.0	105.5
	Percent of central government debt excluding NIS							
Domestic	60.4	60.7	59.5	61.8	66.9	66.5	67.4	70.6
By institutional holder								
Commercial banks and trusts	23.6	23.7	22.6	22.4	27.7	26.3	23.7	24.8
Central Bank of Barbados	1.8	1.9	1.2	2.9	2.1	5.5	8.0	12.2
Other, *of which:*	34.9	35.1	35.7	36.6	37.0	34.8	35.7	33.6
Insurance companies	7.4	7.6	8.7	10.1	12.1	10.7	9.8	8.9
Private sector	15.4	15.5	15.7	15.8	15.4	14.5	17.2	17.3
Other	12.2	12.0	11.3	10.6	9.5	9.6	8.6	7.4
By type								
Tbills	11.9	13.6	13.0	14.1	19.8	25.1	26.8	30.1
Debentures	34.3	33.4	33.7	35.5	36.2	30.5	30.8	31.5
Other (savings bonds, loans, and advances)	14.1	13.7	12.9	12.2	10.9	10.8	9.8	9.0
External	39.6	39.3	40.5	38.2	33.1	33.5	32.6	29.4
Multilateral	10.4	9.6	10.3	11.0	9.5	9.1	9.2	10.2
Bilateral	2.7	2.0	1.5	1.2	0.9	0.7	0.5	0.4
Commercial & PPP	6.4	5.4	4.8	4.4	3.8	7.9	8.1	6.5
Bond placements	20.1	22.3	23.9	21.6	18.9	15.9	14.8	12.4
Memorandum item								
Public sector debt less NIS, percent of FY GDP	64.8	77.2	86.6	93.4	98.8	110.5	113.4	120.5
NIS, percent of FY GDP	18.9	21.9	26.3	28.0	31.7	34.3	34.3	36.1

Sources: Barbados Statistical Services, Central Bank of Barbados, and Fund staff calculations.

2. **Potential gains from a market debt restructuring appear limited.** Barbados has an impeccable debt service record which it is committed to maintaining. While a market-based restructuring exercise could be useful to shift the composition of the debt to longer term maturities (and reduce the rollover risk), given the steeply sloping yield curve, this would necessarily imply a large increase in debt service costs.[3]

Barbados Government Securities Notional Yield Curve



Source: Central Bank of Barbados

Assumptions:

3. **The baseline scenario incorporates the draft FY2016/17 budget proposals with some modification based on recent developments and ongoing government reform effort.** The specific assumptions are as follows:

Growth and Inflation: Growth is projected to increase to about 2 percent in 2016 and continue at this pace over the medium-term, based on evidence of a pickup in private and public investment, with the former primarily in the tourism stock, in response to record stay-over arrivals in 2015. The public investment would be undertaken by SOE and is not reflected in central government accounts. Inflation is projected to pick up to an average of 2.2 percent reflecting changes in the terms of trade. The fiscal multiplier is assumed to be zero. The high debt-to-GDP ratio is inhibiting private investment due to concerns about sustainability. In this context, credible fiscal consolidation is likely to increase confidence and increase private sector investment, counterbalancing the negative impact on growth from fiscal consolidation.

Fiscal Balance: The fiscal balance for FY2016/17 is forecast to be 6.4 percent of GDP and a primary balance of 2 percent, based on the Government's FY2016/17 draft budget, with some modifications; higher revenues forecast is based on an expected full implementation of FY2015/16 fiscal measures and improvement in revenue collections and lower capital spending is based on the constraints on government funding. Over the medium term, the fiscal balance deteriorates to a deficit of 7.6 percent, on account of higher debt service costs related to higher debt and higher interest rates. The primary balance improves to a surplus of 2.6 percent of GDP based on the assumption of higher revenue (as explained above) and some reversal of the rapid increase in spending on goods and services (a return to the recent average) and the implementation of the government's plans to reduce transfers to SOEs in line with their ongoing reform program.

Financing: Financing requirements are primarily being met by new short-term debt instruments, with the share of short-term debt in new domestic debt increasing from 80 to 88 percent by FY2021/22; all short-term debt is rolled over. External debt is based on available information on

[3] For a more detailed discussion see SIP on "Management of the Public Debt", Barbados—Staff Report for the 2015 Article IV Consultation, SM/15/131.

government plans to borrow from multilaterals and bilateral entities, based on plans in the pipeline (following consultations with MDBs and donors). Assumptions on interest cost are:

- Interest rate on external debt: US LIBOR (6M) plus spread (1.5pp) – 4 percent on average; all external debt is treated as one debt instrument, with 5 years grace and 20 years maturity
- Interest rate on domestic long term: 10-year T Note rate plus spread (4pp) – 7.1 percent on average in medium term; all long term debt is treated as one instrument with a 10 years grace and a bullet repayment
- Interest rate on domestic short term: – 3-month T bill rate plus spread (3pp) – 4.9 percent on average in medium term; all short term debt is treated as one debt instrument

The assumption is that there are foreign privatization receipts of B$160 million in FY2016/17 from the sale of Barbados National Oil Terminal Company.

Medium-Term Debt Sustainability Analysis

4. **The public debt-to-GDP ratio is projected to rise from 106 percent in FY2016/17 to 114.2 percent in FY2021/22**. Public debt dynamics are driven by a modest primary surplus of 2 percent in FY2016/17, expected to remain nearly flat in the medium term, and a high interest debt service bill. The estimated debt-stabilizing primary balance in 2016/17 would be 5.8 percent. This is much higher than previously anticipated, largely on account of the large deficits in FY2015/16 and FY2016/17. In the active scenario, where the primary balance is increased to 6.1 percent over FY2016/17–FY2019/20, the debt starts declining in FY2017/18 and falls back to FY2013/14 level (94 percent of GDP) by FY2021/22. This underscores the importance of the authorities' undertaking an ambitious fiscal consolidation program and ensuring its effective implementation. Despite successive and ambitious plans in recent years, weakness in implementation has led to continued increase in debt and higher vulnerabilities.

Debt and Debt Service Ratios, 2015

(In percent)

Country	Interest Payments / Revenue	Debt / Exports	Debt / GDP
Jamaica	27.7	398.7	125.1
Barbados	16.3	282.9	105.5
St. Lucia	15.1	185.8	83.1
Bahamas, The	13.7	153.9	65.0
Grenada	13.7	320.7	92.7
Antigua and Barbuda	13.1	230.0	102.1
Belize	9.3	121.6	76.7
St. Vincent and the Grenadines	8.2	299.4	73.6
Dominica	7.3	262.3	84.4
Suriname	6.7	121.2	43.3
Trinidad and Tobago	6.0	127.2	52.5
St. Kitts and Nevis	5.7	181.6	65.5
Guyana	3.5	111.0	48.8

Source: IMF World Economic Outlook and Fund staff calculations.

5. **Risks are significant.** Gross financing needs, comprised mostly of short-term debt rollover, would grow from 44 percent of GDP in FY2016/17 to 55 percent by FY2021/22. Rolling over this debt constitutes an important risk. Other significant risks are: (i) higher-than-expected increases in U.S. and domestic interest rates; and (ii) recognition of contingent liabilities and arrears, which are

sizeable. Furthermore, the National Insurance Scheme (NIS) capacity to absorb more government debt may be limited by its operational and investment surpluses which are projected to decline over time, and by prudential limits regarding asset concentration. Most importantly, the central bank has limited scope to finance the government given the fixed exchange rate regime, its ability to continue sterilizing the impact of monetization of the deficit indefinitely, and the level of reserves.

6. **The heat map highlights significant risks to the debt profile, namely the rapid increase in short-term debt.** That this debt is mostly held domestically helps to mitigate the risks from external shocks. Nevertheless, the high proportion of short-term domestic debt makes Barbados very vulnerable to an increase in domestic interest rates.

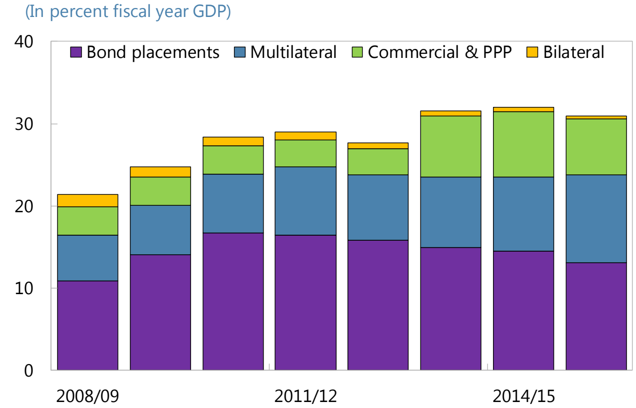
7. **The stress test scenarios confirm the high vulnerability of debt and financing needs to shocks to real interest rates, real GDP growth.** Shocks to real interest rates push the debt-to-GDP ratio to about 131 percent, and shocks to real GDP growth to 123 percent by FY2021/22. Gross financing needs remain elevated at about 44 to 68 percent of GDP under these shocks, with the real interest rates shock having the most adverse impact. Shocks to the primary balance are moderate – they would push nominal debt to 117 percent of GDP and increase gross financing needs to 56 percent of GDP. Shocks to the exchange rate would worsen the debt path only marginally.

8. **Staff projections of GDP growth, the primary balance, and inflation have on average been overoptimistic**. This reflects the unexpectedly prolonged nature of the economic crisis in Barbados, with an extended period dating back to 2008 of negative to stagnant growth and the inability of the authorities to implement their planned reform. Current base line projections envisage a mild recovery, which would by definition result in higher growth than the ten-year average. Typically, after a prolonged recession growth would be higher as a catch up. The staff projections do not envisage such a scenario, but rather a return to more steady, but still relatively low growth. The "Boom-Bust" analysis does not apply to Barbados, because Barbados in experiencing weak growth.

B. External Debt

9. **External public debt is relatively low and does not in itself pose solvency risks**. However, there are vulnerabilities in the medium term arising from the liquidity needs related to a possible deterioration in market perception as a result of further downgrading of their sovereign rating. This could make future access to external financing difficult and could reduce the probability of rollover of existing debt and increase its costs substantially. Lack of data on external private debt prevents a full quantitative assessment of the economy's external position.

External Debt Composition
(In percent fiscal year GDP)



Sources: Barbados authorities and Fund staff calculations.

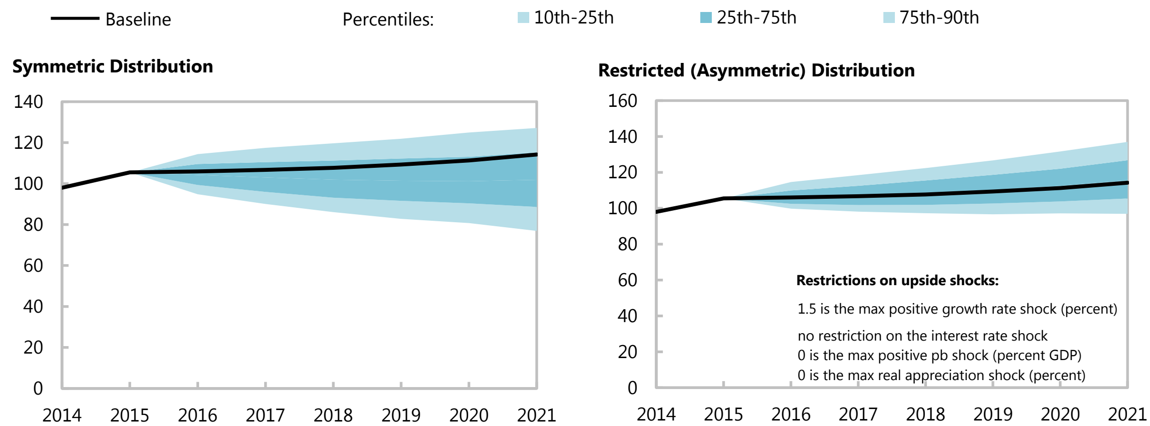
Figure A2.1. Barbados Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

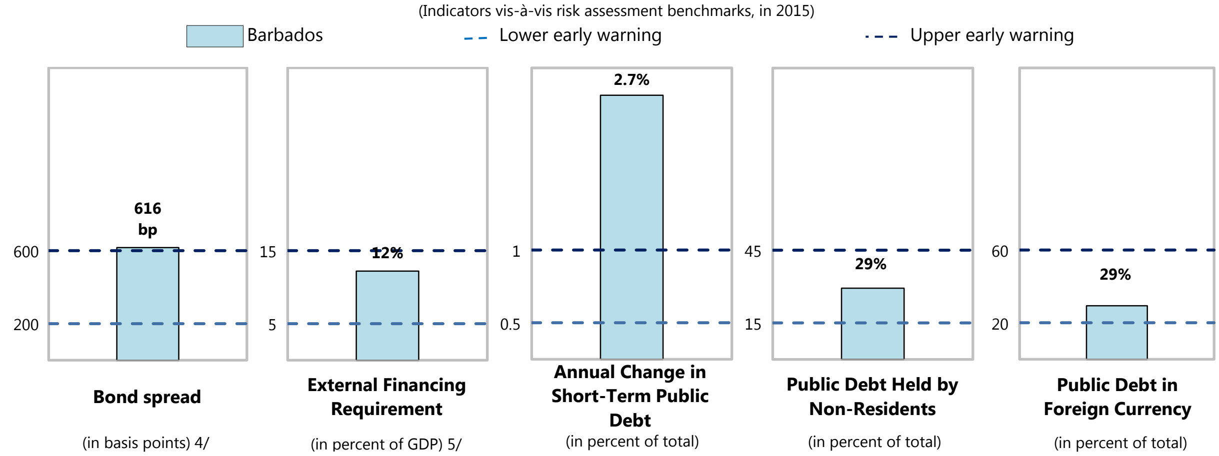
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: Fund staff calculations.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

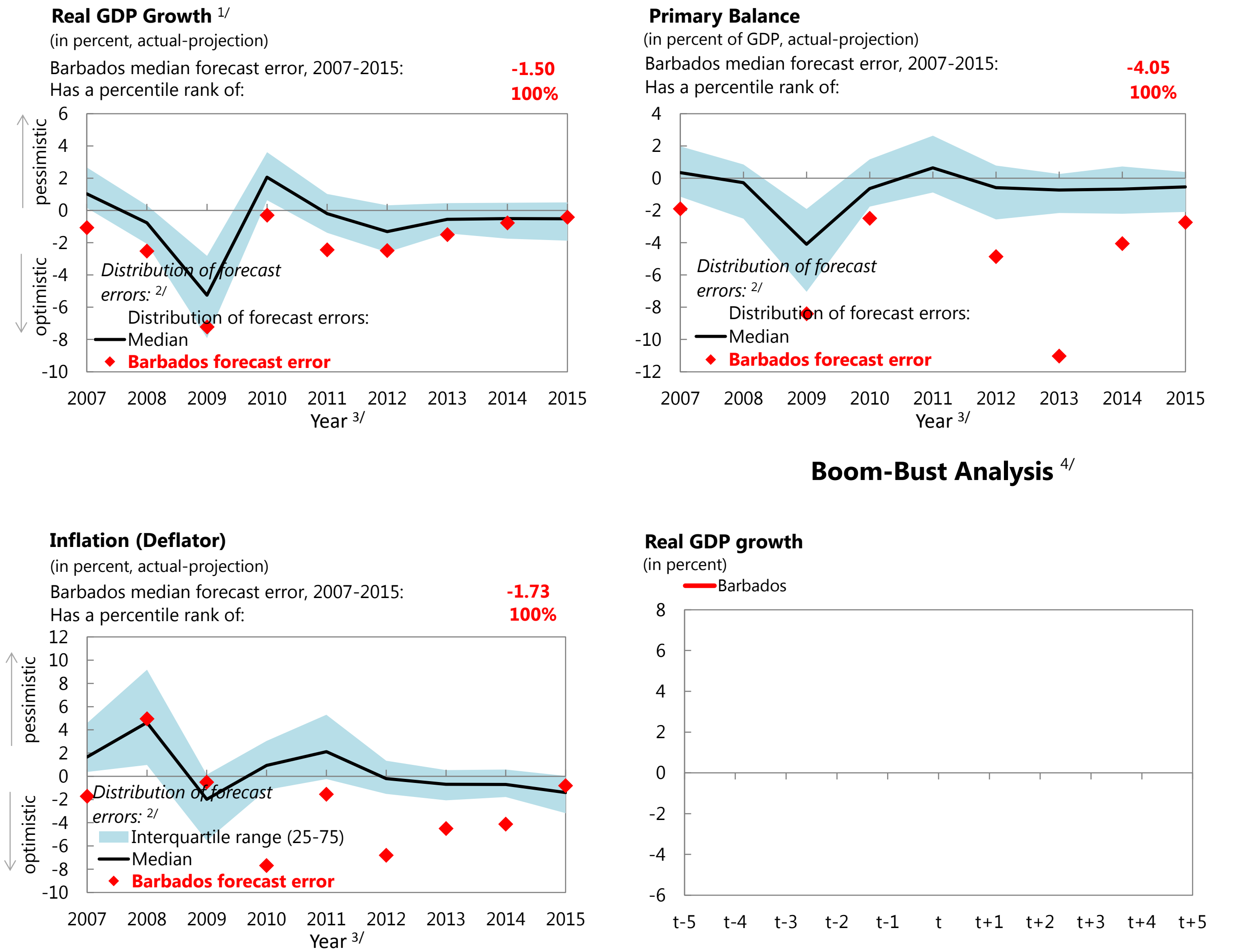
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 23-Jan-16 through 22-Apr-16.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure A2.2 Barbados Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus all countries



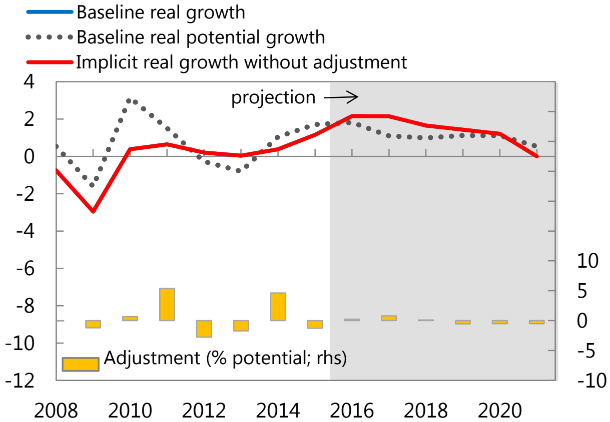
Source: Fund Staff calculations.
1/ The nominal GDP data series was revised in 2013. Staff have identified inconsistencies in the GDP deflator and are following up with the authorities.
2/ Plotted distribution includes all countries, percentile rank refers to all countries.
3/ Projections made in the spring WEO vintage of the preceding year.
4/ Not applicable for Barbados.
5/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis

Figure A2.2 Barbados Public DSA - Realism of Baseline Assumptions (Concluded)

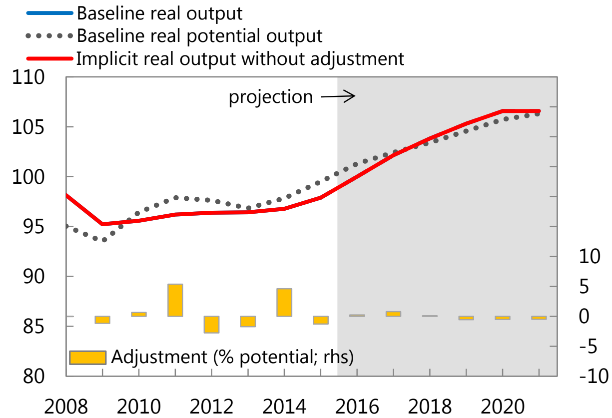
Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 0, persistence of 0

Real GDP Growth
(in percent)

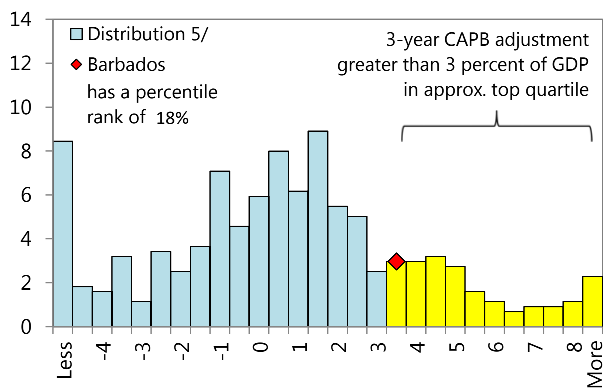


Real Output Level
(Baseline real output in 2016=100)

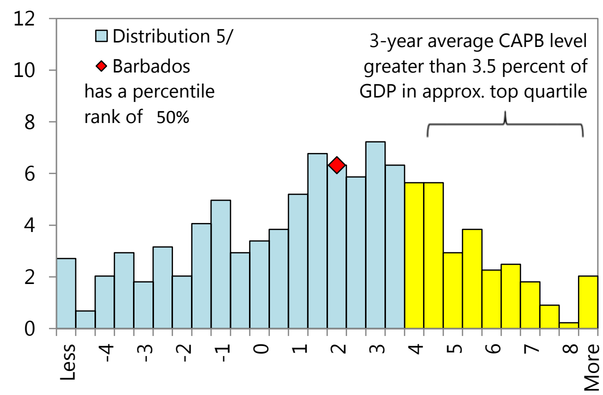


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Source: Fund staff calculations.
5/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure A2.3. Barbados Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(In percent of GDP unless otherwise indicated)

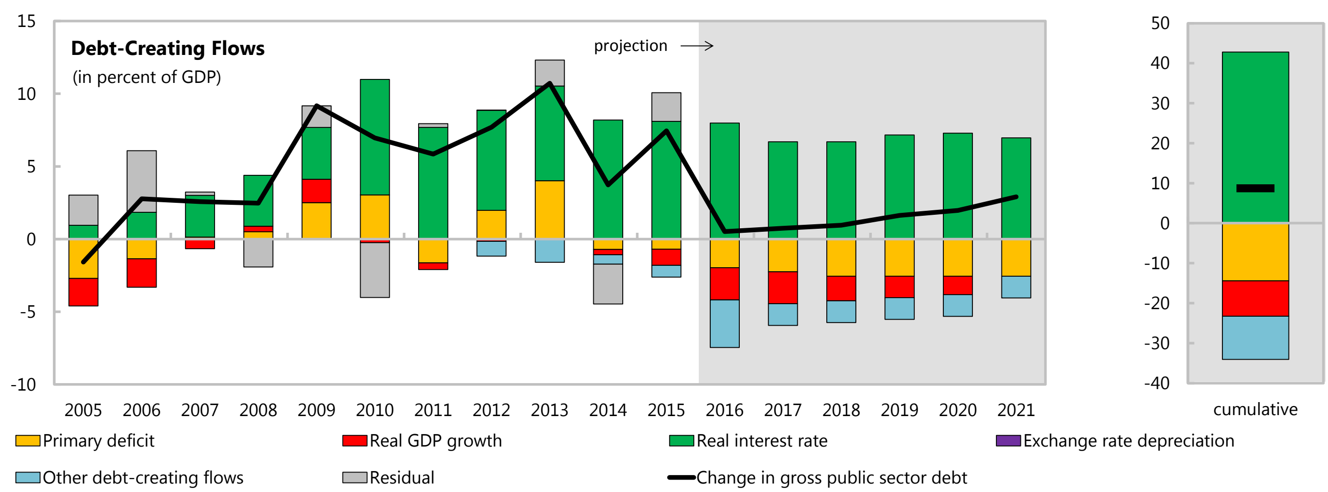
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	65.2	98.0	105.5	106.0	106.7	107.7	109.3	111.3	114.2
Public gross financing needs	22.7	40.5	46.8	44.5	51.1	50.4	50.4	51.6	54.7
Real GDP growth (in percent)	0.9	0.4	1.1	2.2	2.1	1.6	1.4	1.2	0.0
Inflation (GDP deflator, in percent)	1.3	-0.6	-0.4	0.3	1.8	2.4	2.5	2.5	3.0
Nominal GDP growth (in percent)	2.2	-0.2	0.7	2.5	4.0	4.1	3.9	3.7	3.0
Effective interest rate (in percent) [4/]	8.7	8.0	7.9	8.1	8.4	9.0	9.4	9.5	9.4

As of April 22, 2016		
Sovereign Spreads		
EMBIG (bp) 3/		615
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Caa1	Caa1
S&Ps	B	B
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	5.2	3.7	7.4	0.5	0.7	0.9	1.6	2.0	2.9	8.7	
Identified debt-creating flows	4.7	6.5	5.5	0.5	0.7	0.9	1.6	2.0	2.9	8.7	
Primary deficit	0.7	-0.7	-0.7	-2.0	-2.3	-2.6	-2.6	-2.6	-2.6	-14.4	5.5
Primary (noninterest) revenue and grants	27.1	28.8	29.7	30.4	30.4	30.4	30.4	30.4	30.4	182.7	
Primary (noninterest) expenditure	27.8	28.0	29.0	28.5	28.2	27.9	27.9	27.9	27.9	168.3	
Automatic debt dynamics [5/]	4.3	7.8	7.0	5.8	4.5	5.0	5.7	6.0	7.0	34.0	
Interest rate/growth differential [6/]	4.3	7.8	7.0	5.8	4.5	5.0	5.7	6.0	7.0	34.0	
Of which: real interest rate	4.6	8.2	8.1	8.0	6.7	6.7	7.2	7.3	7.0	42.8	
Of which: real GDP growth	-0.4	-0.4	-1.1	-2.2	-2.2	-1.7	-1.5	-1.3	0.0	-8.8	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.3	-0.7	-0.8	-3.3	-1.5	-1.5	-1.5	-1.5	-1.5	-10.8	
Foreign financing, Privatization receipts (negative)	-0.1	0.0	0.0	-1.8	0.0	0.0	0.0	0.0	0.0	-1.8	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
National Insurance Scheme	-0.2	-0.7	-0.8	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-9.0	
Residual, including asset changes [8/]	0.5	-2.7	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: Fund staff calculations.

1/ Public sector is defined as central government, excluding NIS holdings. Fiscal year (April to March) data.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

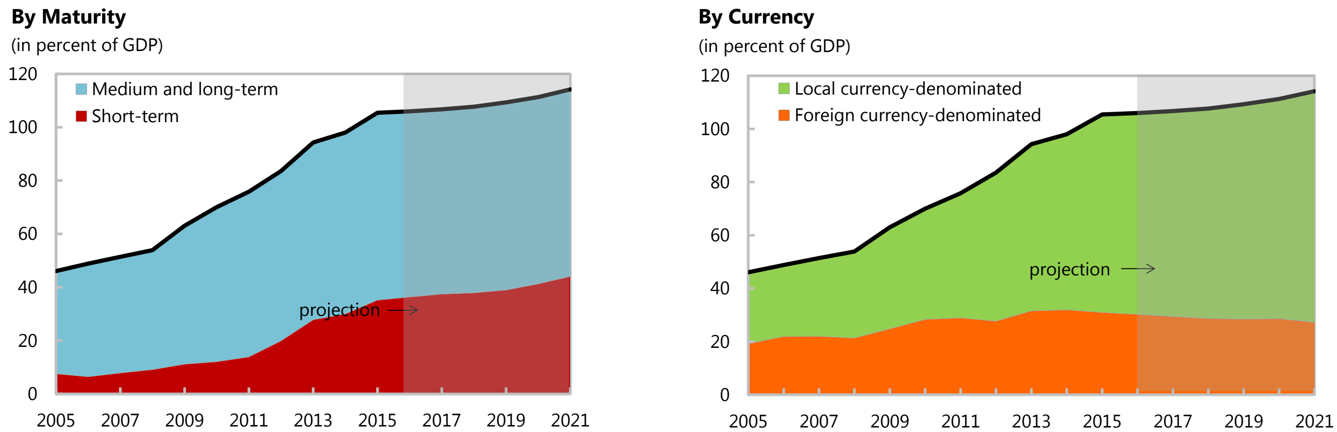
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

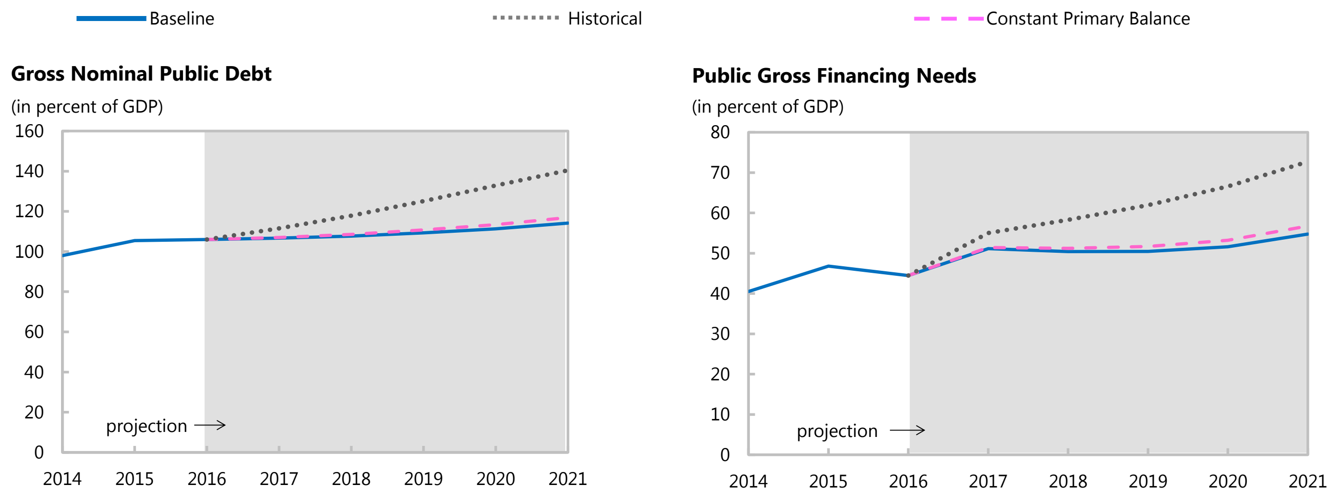
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure A2.4. Barbados Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

(in percent)

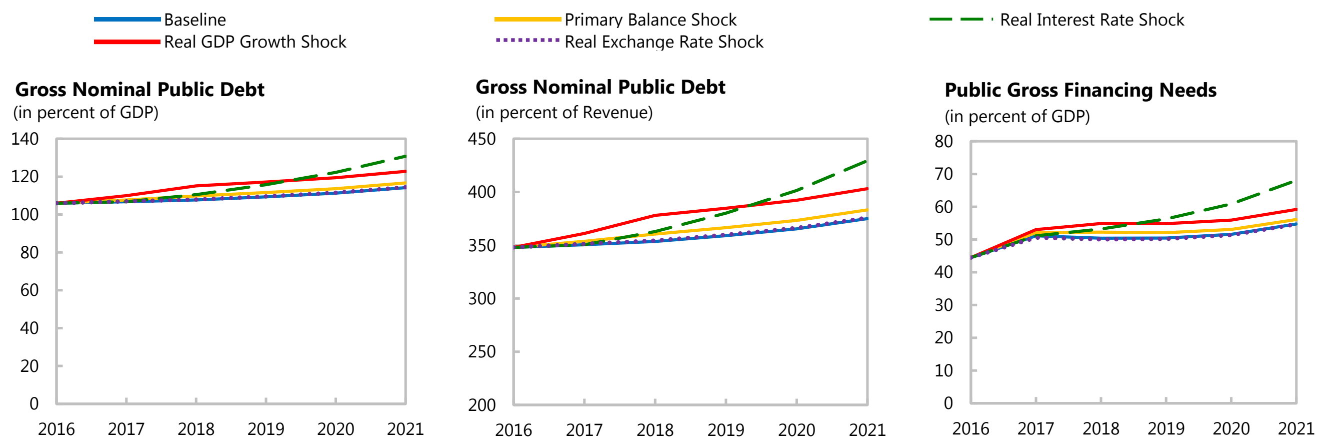
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.2	2.1	1.6	1.4	1.2	0.0
Inflation	0.3	1.8	2.4	2.5	2.5	3.0
Primary Balance	2.0	2.3	2.6	2.6	2.6	2.6
Effective interest rate	8.1	8.4	9.0	9.4	9.5	9.4
Constant Primary Balance Scenario						
Real GDP growth	2.2	2.1	1.6	1.4	1.2	0.0
Inflation	0.3	1.8	2.4	2.5	2.5	3.0
Primary Balance	2.0	2.0	2.0	2.0	2.0	2.0
Effective interest rate	8.1	8.4	9.0	9.4	9.4	9.4

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.2	0.5	0.5	0.5	0.5	0.5
Inflation	0.3	1.8	2.4	2.5	2.5	3.0
Primary Balance	2.0	-0.8	-0.8	-0.8	-0.8	-0.8
Effective interest rate	8.1	8.4	9.5	10.0	10.1	10.0

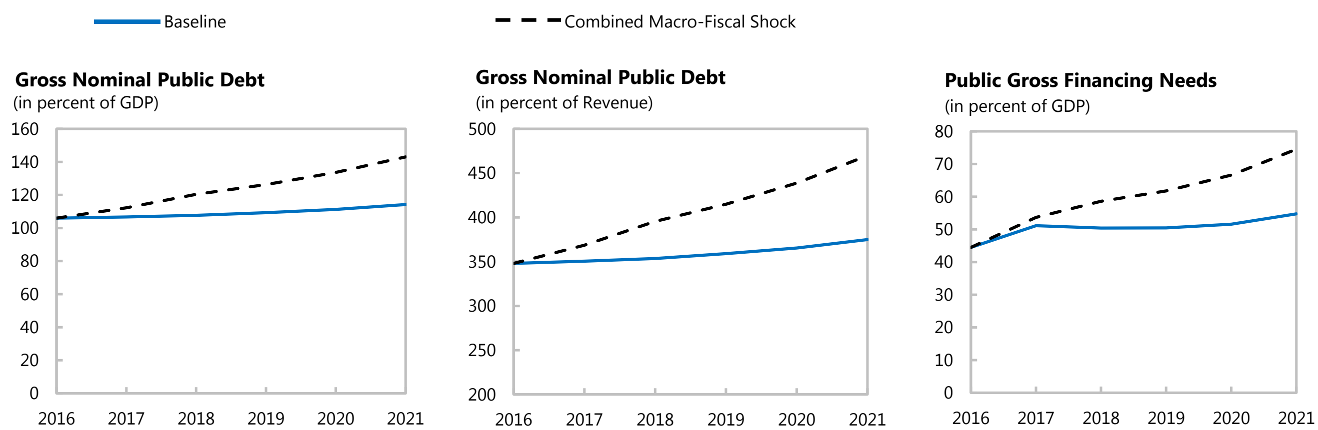
Source: Fund staff calculations.

Figure A2.5. Barbados Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

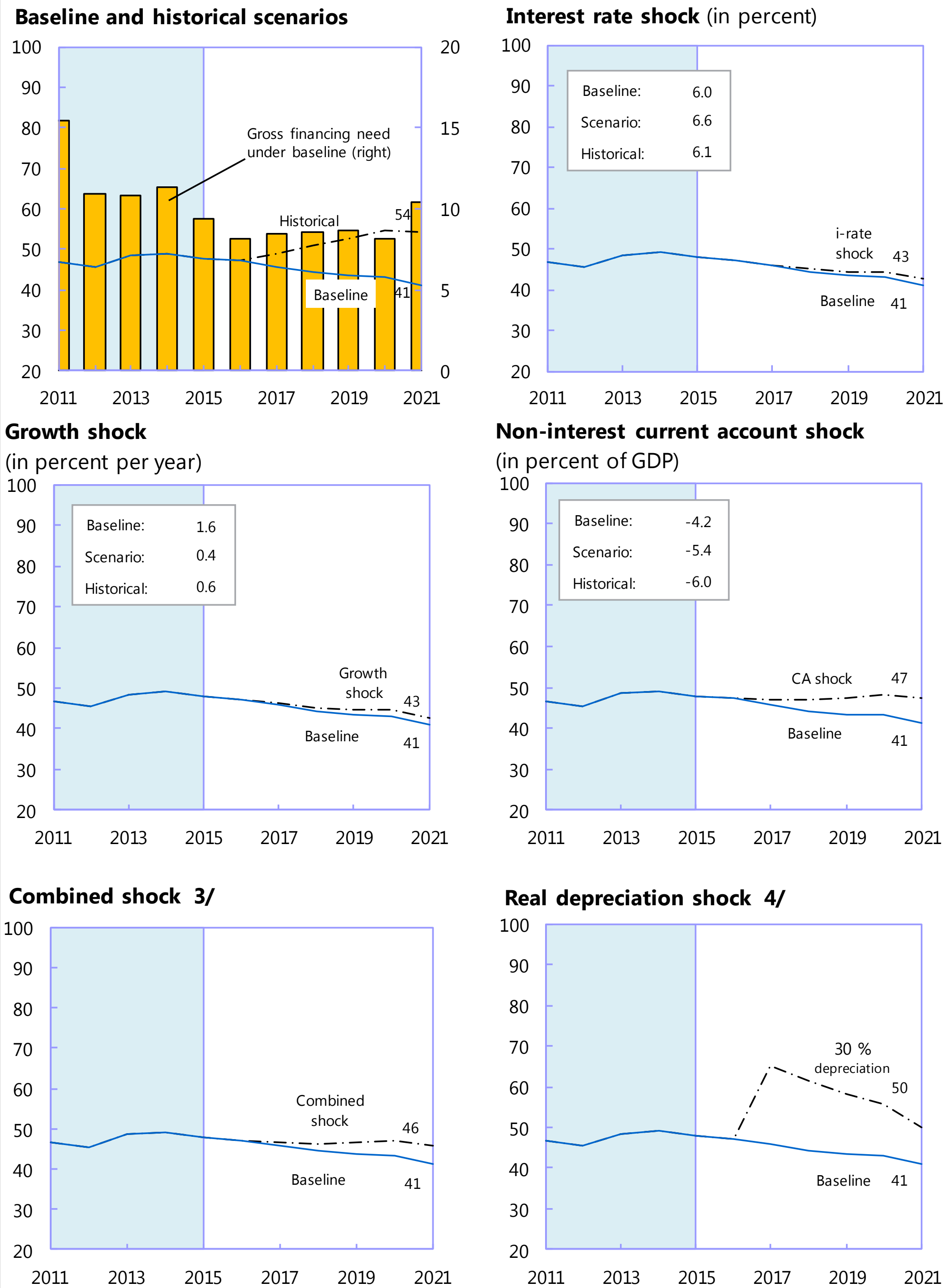
Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	2.2	2.1	1.6	1.4	1.2	0.0
Inflation	0.3	1.8	2.4	2.5	2.5	3.0
Primary balance	2.0	1.3	1.6	2.6	2.6	2.6
Effective interest rate	8.1	8.4	9.1	9.5	9.4	9.4
Real Interest Rate Shock						
Real GDP growth	2.2	2.1	1.6	1.4	1.2	0.0
Inflation	0.3	1.8	2.4	2.5	2.5	3.0
Primary balance	2.0	2.3	2.6	2.6	2.6	2.6
Effective interest rate	8.1	8.4	11.7	12.7	13.2	13.6
Combined Shock						
Real GDP growth	2.2	0.3	-0.2	1.4	1.2	0.0
Inflation	0.3	1.3	1.9	2.5	2.5	3.0
Primary balance	2.0	1.3	1.2	2.6	2.6	2.6
Effective interest rate	8.1	8.5	11.6	12.6	13.1	13.5

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	2.2	0.3	-0.2	1.4	1.2	0.0
Inflation	0.3	1.3	1.9	2.5	2.5	3.0
Primary balance	2.0	1.6	1.2	2.6	2.6	2.6
Effective interest rate	8.1	8.4	9.0	9.5	9.4	9.4
Real Exchange Rate Shock						
Real GDP growth	2.2	2.1	1.6	1.4	1.2	0.0
Inflation	0.3	3.3	2.4	2.5	2.5	3.0
Primary balance	2.0	2.3	2.6	2.6	2.6	2.6
Effective interest rate	8.1	8.5	8.9	9.4	9.4	9.4

Source: Fund staff calculations.

Figure A2.6. Barbados External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2017.

Table A2.1. Barbados: External Debt Sustainability Framework, 2011-2021

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	46.7	45.4	48.5	49.0	47.9			**47.2**	**45.7**	**44.3**	**43.5**	**43.1**	**41.1**	**-4.1**
Change in external debt	3.0	-1.3	3.1	0.5	-1.1			-0.7	-1.5	-1.4	-0.8	-0.4	-2.0	
Identified external debt-creating flows (4+8+9)	2.3	-1.7	5.1	1.8	1.0			-1.5	-1.1	-0.6	0.1	0.5	0.9	
Current account deficit, excluding interest payments	10.6	7.1	7.3	7.0	3.9			2.9	3.4	3.7	4.2	4.5	4.9	
Deficit in balance of goods and services	5.0	5.1	4.3	5.0	1.8			-0.1	0.5	0.7	1.2	1.5	1.9	
Exports	47.3	45.1	44.8	43.5	44.1			44.1	43.9	43.8	43.5	43.4	43.1	
Imports	52.4	50.2	49.1	48.6	46.0			43.9	44.4	44.4	44.8	44.9	45.0	
Net non-debt creating capital inflows (negative)	-11.4	-11.3	-3.6	-7.3	-5.5			-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	
Automatic debt dynamics 1/	3.1	2.5	1.4	2.0	2.6			1.8	1.5	1.8	1.9	2.1	2.1	
Contribution from nominal interest rate	2.2	2.2	1.8	2.8	2.7			2.8	2.6	2.6	2.6	2.6	2.6	
Contribution from real GDP growth	-0.3	-0.1	0.0	-0.1	-0.4			-1.0	-1.0	-0.7	-0.6	-0.5	-0.5	
Contribution from price and exchange rate changes 2/	1.2	0.4	-0.4	-0.7	0.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	0.7	0.4	-2.0	-1.3	-2.1			0.8	-0.3	-0.8	-0.9	-0.8	-2.9	
External debt-to-exports ratio (in percent)	98.7	100.8	108.4	112.6	108.4			107.1	104.2	101.3	99.9	99.4	95.4	
Gross external financing need (in billions of US dollars) 4/	0.7	0.5	0.5	0.5	0.4			0.4	0.4	0.4	0.4	0.4	0.6	
in percent of GDP	15.5	11.0	10.8	11.4	9.4			8.2	8.4	8.5	8.6	8.2	10.4	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**47.2**	**49.0**	**50.8**	**52.6**	**54.5**	**54.1**	**-4.3**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	0.8	0.3	0.0	0.2	0.8	0.6	2.3	2.1	2.3	1.7	1.5	1.2	1.2	
GDP deflator in US dollars (change in percent)	-2.7	-0.9	0.9	1.5	-0.5	0.8	2.8	-0.1	1.6	2.4	2.5	2.5	2.5	
Nominal external interest rate (in percent)	4.9	4.7	4.0	5.9	5.6	6.1	1.3	5.9	5.7	5.8	6.0	6.1	6.1	
Growth of exports (US dollar terms, in percent)	0.2	-5.3	0.2	-3.2	1.7	0.6	8.3	1.8	3.6	3.7	3.5	3.4	3.0	
Growth of imports (US dollar terms, in percent)	1.9	-4.8	-1.2	-1.5	-5.1	-0.4	8.6	-2.5	5.1	4.0	4.8	4.1	4.0	
Current account balance, excluding interest payments	-10.6	-7.1	-7.3	-7.0	-3.9	-6.0	2.4	-2.9	-3.4	-3.7	-4.2	-4.5	-4.9	
Net non-debt creating capital inflows	11.4	11.3	3.6	7.3	5.5	6.7	3.2	6.1	6.1	6.1	6.1	6.1	6.1	

Sources: Barbados Authorities and Fund staff projections.

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex III. External Sector Assessment, Competitiveness, and Reserve Adequacy

The Barbados dollar remains moderately overvalued although the improvement in the terms of trade have narrowed the gap with fundamentals. The EBA-lite assessment (current account, equilibrium exchange rate and external sustainability) point to an overvaluation of about 5-10 percent. Nonetheless, these quantitative approaches face a number of shortcomings, due in part to the lack of consistent data (i.e., on net foreign assets (NFA) and terms of trade).[1] Qualitative measures using global indices imply that competitiveness may have weakened but the strong tourism performance may indicate an improvement in competitiveness. Reserves are broadly adequate, but staff estimates suggest they are below the level considered comfortable for a small island economy with a fixed exchange rate.

External Balance Assessment: EBA-Lite methodology

1. **The EBA-Lite current account methodology suggests that the exchange rate is overvalued by 4.8 percent.** This is based on an estimated cyclically adjusted current account balance and norm of 5.4 percent and 4.1 percent, respectively. The gap between the cyclically adjusted actual and the norm current account is relatively small (about 1.3 percent). There are some policy gaps, mostly explained by inadequate fiscal policies. Over the medium-term, deterioration in the current account under the baseline scenario would raise the estimated gap.

Current Account

CA-Actual	-4.60%	CA-Fitted	-1.89%
CA-Norm	-2.97%	Residual	-2.72%
CA-Gap	-1.63%	Policy gap	1.09%
Elasticity	-27.53%		
RER Gap	5.92%	Cyclical Contributions	0.35%
		Cyclically adjusted CA	-4.96%
		Cyclically adjusted CA Norm	-3.33%

Source: Fund staff calculations.

2. **The EBA-lite REER Index approach points to an overvaluation of about 5 percent.** Positive terms of trade shocks, driven by lower oil and other import prices, induced an upward shift in the equilibrium real effective exchange rate. Meanwhile the appreciation of the US dollar is inducing some real appreciation in the actual REER.[2]

REER Index Model

ln(REER)-Actual	4.80	ln(REER)-Fitted	4.75
ln(REER)-Norm	4.75	Residual	0.05
REER-Gap	0.05	Policy gap	0.00

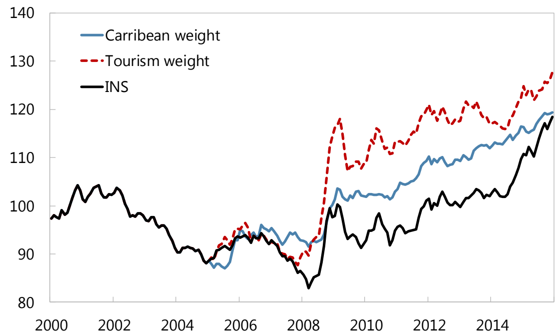
Source: Fund staff calculations.

[1] Owing to the lack of consistent data on NFA, cumulative CA deficits are used as a proxy for NFA.

[2] Directly estimates the equilibrium real exchange rate level based on a set of fundamentals, including productivity differentials, terms of trade, government consumption, and net foreign assets.

3. **The EBA-lite external sustainability analysis also suggests that the Barbados dollar may be slightly overvalued.**[3] Specifically, the analysis points to an overvaluation at about 9.6 percent. For Barbados to stabilize its NFA, it would have to maintain its CA deficit at about 5 percent of GDP. Given the structure of the balance of payments, this would require stronger exports of goods and services, suggesting the need for policies to improve competitiveness.

Real Effective Exchange Rates
(Index: January 2000=100)



Sources: IMF Information Notice System and Fund staff calculations.

4. **Qualitative indicators raise some questions about competitiveness.** According to the Global Competitiveness Index and the Travel and Tourism Competitiveness Index (Figure 7), Barbados' ranking declined from 47th to 55th position and from 27th to 46th position, respectively between 2013/2014 and 2014/15 and 2013 to 2015, respectively relative to other economies. However, tourism data provide a conflicting picture with arrivals suggesting an increase in tourism market share –with Barbados receiving the largest increase in stay-over visitors in the Caribbean, after Cuba and Aruba.[4] Visitor expenditure picked up at a slower pace. The improved tourism performance in 2015 is partly attributable to a recovery in key markets (including the UK), entrance of a well-known tourism chain (including Sandals Resorts International), increased airlift, and a strengthened marketing effort.

5. **There have been several recent initiatives to enhance tourism competitiveness including the creation of two agencies**. The Barbados Tourism Marketing Inc. (BTMI) and Barbados Tourism Product Authority (BTPA) were established in September 2014 to replace the Barbados Tourism Authority. BTMI is tasked with marketing the country while BTPA focuses on the development of Barbados tourism attractions and infrastructure. BTMI has focused on innovative approaches to increase airlift and building "strong alliances" with travel agencies, tour operators and local partners to increase Barbados marketing presence. The BTMI and Barbados Hotel & Tourism Association (BHTA) launched "Brilliant Barbados", a promotion aimed at increasing forward booking for the softer summer and fall periods, with value-packed deals. Ongoing initiatives include updating visitor accommodation regulations to internationally-recognized visitor short-term accommodation standards—to ensure that Barbados product remains globally competitive in an evolving tourism product market. Other initiatives include a "Mystery Shopper Programme" for Visitor Accommodation, Tourism Services and Service Providers to objectively assess the amenities and services comprising Barbados' Tourism Product. This Programme will provide valuable feedback to all Tourism Service Providers and enhance product quality offerings and tourism services.

6. **Despite the surge in tourism arrivals, travel receipts and GDP impact remain low.** There is scope to enhance earnings from tourism. An IMF study ("Revisiting Tourism Flows to the

[3] Calculates the difference between the actual CA balance and the balance that would stabilize the NFA position.

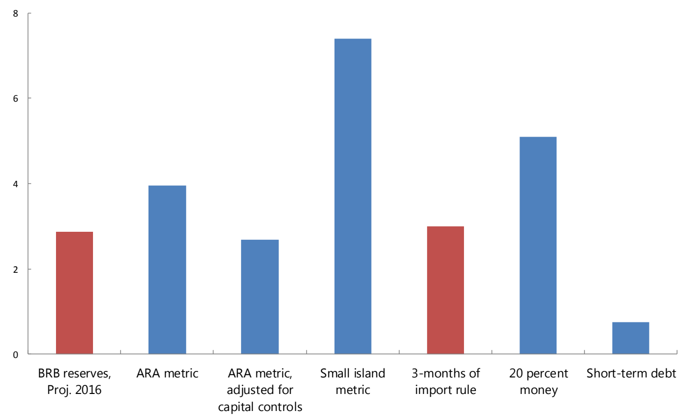
[4] The increase in visitors to Aruba is related to developments in Venezuela.

Caribbean: What is driving arrivals" WP/14/229) points to the need for structural reforms to raise product quality, and reduce cost in destinations like Barbados. Efforts to integrate sectors, including agriculture supply chains, with tourism would be beneficial. Additional reforms are needed to safeguard the "brand" and ensure longer-term competitiveness. These include incentives for investment in the tourism human capital stock (including through better skills matching and training).

7. **Reserve Adequacy Assessment** The reserve position is expected to improve slightly in 2016 mainly on account of a further decline in the current account deficit, reflecting low commodity prices and an increase in official borrowing, (including a loan from the Export-Import Bank of China) from 2.8 to 3.1 months of prospective imports. Reserves are assessed to be adequate based on several metrics. Reserves exceed the short-term external debt by a substantial margin and are somewhat higher than the threshold using the short-term external debt rule or the Fund's reserve adequacy metric (ARA) controlling for capital controls in place. However, Barbados reserves are significantly lower than the estimated threshold using metrics that takes into account capital flight-related risks when capital controls are ineffective—given the level required to cover broad money; and also below "comfortable" levels for small open economies with high debt and fixed-exchange rate regimes.[5]

Barbados Reserves

(In months of prospective imports)



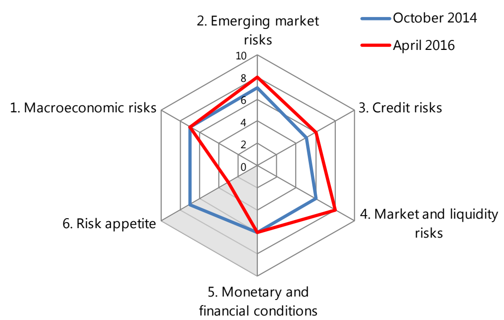
Source: Fund staff calculations.

[5] See Mwase, 2012 for a discussion of the small island metric.

Annex IV. Risks to Financial Stability in Barbados

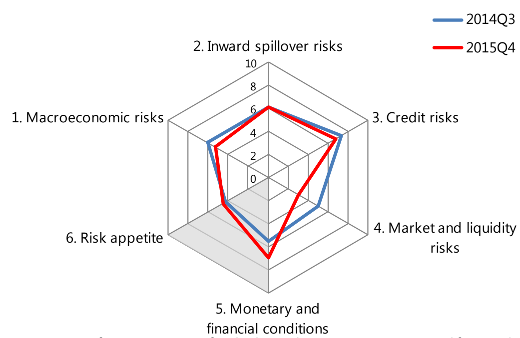
1. **This annex assesses risks to Barbados' financial stability using the country financial stability map methodology, and a credit cycle and financial soundness indicators heat map.**[1] Financial stability methodology maps quantitative indicators into six categories of risks and conditions relevant for financial stability: (i) macroeconomic risks, (ii) inward spillover risks, (iii) credit risks, (iv) market and liquidity risks, (iv) monetary and financial conditions, and (vi) risk appetite. Domestic and external sources of risks to financial stability and their evolution over the past year (since the Staff Report for the 2015 Article IV Consultation) are evaluated and compared against developments in global risks to financial stability from the Global Financial Stability Report.

GFSR Global Financial Stability Map



Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

Barbados Financial Stability Map

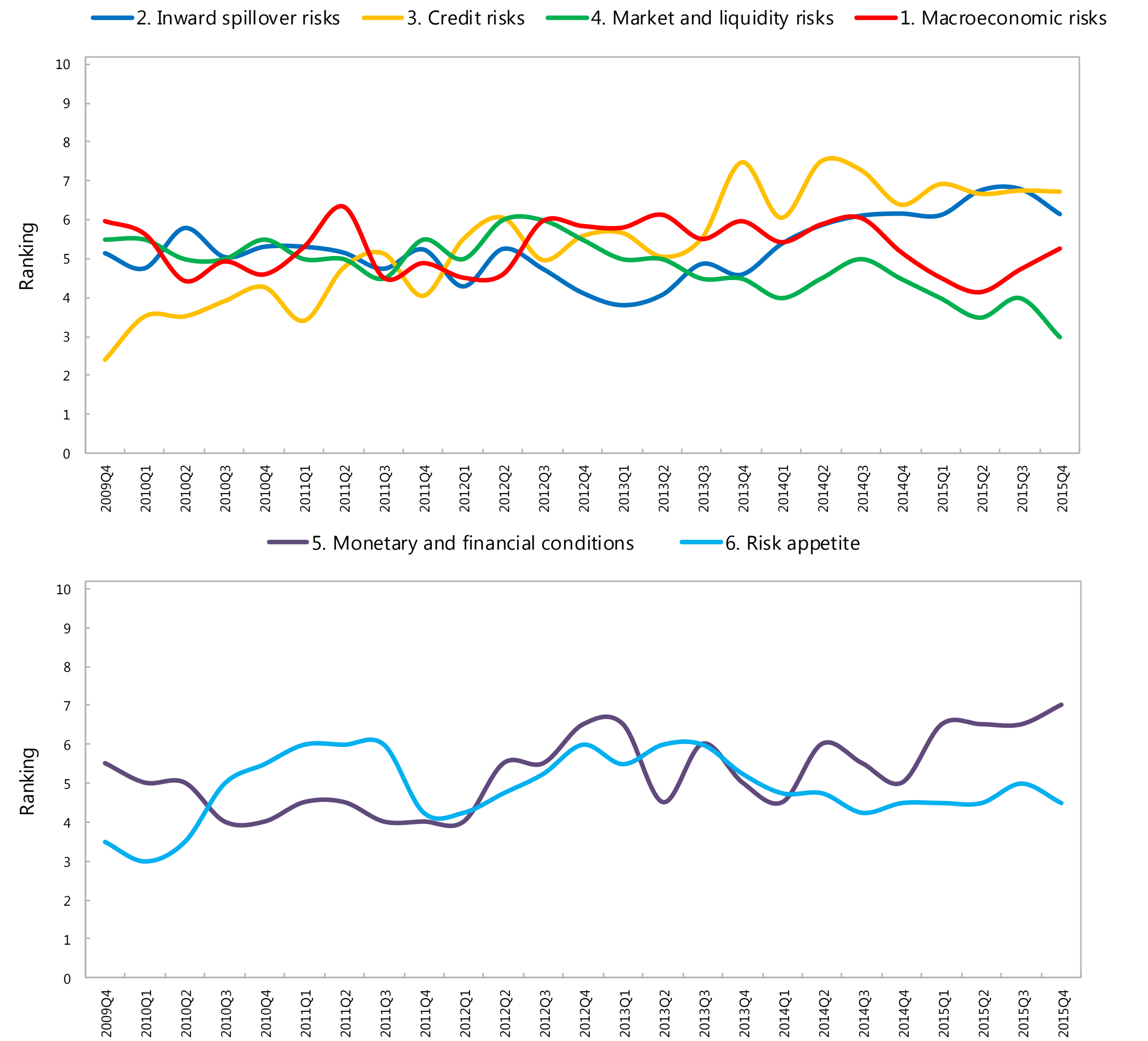


Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

2. **Macroeconomic and credit risk indicators have declined slightly over the past eighteen months, but remain above the normalized historical average, based on a diffusion of indicators**. Although economic growth has turned positive, high unemployment, low growth, and fiscal deficits contribute to the overall macroeconomic risks. Banks' non-performing loan ratios have been slowly dropping and bank profitability (ROA and ROE) has increased, contributing to a minor improvement in the credit risk measure, though as shown in the aggregate time series chart below, credit risk is above the recent historical average. The tepid turnaround in private sector credit growth in 2015, combined with banks' very liquid balance sheets and low exposure to foreign liabilities, combine to limit market and liquidity risks. Trade and financial linkages and the erosion of international reserves has increased inward spillover risks. Growth of broad money and domestic credit are the key elements behind the slight easing of the monetary and financial conditions metric.

[1] Financial stability maps follow the methodology of Cervantes, Jeasukul, Maloney and Ong (2014), "Mapping Country to Global Financial Stability," IMF Working Paper, 2014. The FSI heat map is based on methodology stemming from Chapter 3 of the "Global Financial Stability Report" IMF, September 2011.

Aggregate Risks and Conditions Combined Time Series Charts



3. **Barbados' well-developed financial system is dominated by strongly capitalized and highly liquid foreign commercial banks**. The Financial Soundness Indicator "Heat Map" (below) shows little immediate risks to the banks. Liquidity is extremely high, in part, reflecting weak economic performance and slow private sector credit growth for most of the past decade. As a result, the credit cycle does not generate any red or yellow cautionary flags. Banks' holdings of government treasury bills and debentures are about 15 percent of their total assets. As noted, profitability indicators (ROA and ROE), while low by historical standards, are beginning to increase. The NPL ratio is very high (10.6 percent in 2015Q4), but has been slowly declining. Banks' average leverage ratio is stable, and close to the range for advanced economies with highly developed banking systems, including Canada, but falls within the template's medium vulnerability threshold range.

Financial Soundness Indicator Map

Barbados	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4
Overall Financial Sector Rating	M	L	L	L	L	M	L	L	L	L	L
Credit cycle	L	L	L	L	L	L	L	L	L	L	L
Change in credit / GDP ratio (pp, annual)	-4.3	-5.7	-10.8	-23.2	-18.6	-27.0	-24.4	-0.5	-9.2	0.3	-1.5
Growth of credit / GDP (%, annual)	-0.8	-1.1	-2.1	-4.5	-3.7	-5.3	-4.8	-0.1	-1.9	0.1	-0.3
Credit-to-GDP gap (st. dev)	-0.5	-0.5	-0.7	-1.9	-1.5	-1.4	-0.9	-0.1	-0.5	0.0	0.2
Balance Sheet Soundness	M	L	L	L	L	M	L	L	L	L	L
Balance Sheet Structural Risk	L	L	L	L	L	L	L	L	L	L	L
Deposit-to-loan ratio	138.8	140.3	142.6	145.9	142.3	142.2	142.3	145.6	150.1	150.6	152.6
FX liabilities % (of total liabilities)	16.6	18.0	18.3	17.8	17.9	17.8	17.3	17.3	17.0	17.2	16.3
FX loans % (of total loans)	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Balance Sheet Buffers	M	L	L	L	L	M	L	L	L	L	L
Leverage	M	M	M	M	M	M	M	M	M	M	M
Leverage ratio (%)	4.5	4.4	4.0	4.0	4.1	4.0	4.3	4.0	4.3	4.0	4.0
Profitability	L	L	L	L	L	L	L	L	L	L	L
ROA	1.0	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.9
ROE	3.2	2.5	2.6	3.2	3.4	3.5	2.8	3.3	4.2	5.0	5.5
Asset quality	M	L	L	L	L	M	L	L	L	L	L
NPL ratio	13.9	11.3	11.7	11.0	12.2	12.2	11.5	11.4	11.0	10.8	10.6
NPL ratio change (%, annual)	13.0	-11.0	-9.3	-20.9	-12.2	8.0	-1.7	3.6	-9.8	-11.5	-7.8

BARBADOS

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 7, 2016

Prepared By | Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of May 31, 2016)

Membership Status: Joined 12/29/1970; Article VIII.

General Resources Account:

	SDR Million	Percent Quota
Quota	94.50	100.00
Fund holdings of currency (Exchange Rate)	81.96	86.73
Reserve Tranche Position	12.56	13.29

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	64.37	100.00
Holdings	49.73	77.25

Outstanding Purchases and Loans: None

Financial Arrangements:

In millions of SDR, (mm/dd/yyyy)				
Type	Approval Date	Expiration Date	Amount Approved	Amount Drawn
Stand-By	02/07/1992	05/31/1993	23.89	14.67
Stand-By	10/01/1982	05/31/1984	31.88	31.88

Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2016	2017	2018	2019	2020
Principal					
Charges/interest	0.00	0.01	0.01	0.01	0.01
Total	**0.00**	**0.01**	**0.01**	**0.01**	**0.01**

Exchange Rate Arrangements: The Barbados dollar has been pegged to the U.S. dollar since mid-1975 at the rate of BDS$2.00 = US$1.00. There are no restrictions on the making of payments and transfers for current international transactions subject to approval under Article VIII. There are exchange controls on some invisibles, but bona fide transactions are approved. All capital outflows and certain capital inflows require approval. The authorities accepted the obligations of Article VIII, Sections 2, 3, and 4 on November 3, 1993.

Last Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on June 19, 2015. Barbados is on the standard 12-month consultation cycle.

Technical Assistance (2012–Current):

Department	Dates	Purpose
CARTAC	February 2016	Finalize quarterly GDP estimates
FAD	January 2016	Fiscal Rules Framework
CARTAC	January 2016	Macroprudential and Systemic Risk Indicators
CARTAC	November 2015	Finalize quarterly GDP estimates
CARTAC	October 2015	Stress Testing Framework for Credit Unions
FAD	June 2015	Improving performance of BRA
CARTAC	June 2015	Revise national accounts, quarterly GDP
CARTAC	June 2015	Indicators for Insurance Sector
CARTAC	March 2015	Revise CPI
CARTAC STX (Revenue Administration)	February 2015	Strengthen HQ functions prepare for customs integration
CARTAC STX (Revenue Administration)	January 2015	Strengthen audit, internal audit, planning and revenue forecasting functions and build senior management capacities
CARTAC STX (Revenue Administration)	September 2014	Build HQ Capacity
CARTAC STX (Revenue Administration)	August 2014	Preliminary visit to identify TA needs and design a workplan
CARTAC LTX (Revenue Administration)	July 2014	Design an integrated audit program
FAD	June 2014	Advice on tax policy reforms
CARTAC LTX (Revenue Administration)	May 2014	Design the BRA corporate strategic business plan
CARTAC PFM	April 2015	Functional Classification
CARTAC PFM	April 2015	Internal Audit
CARTAC PFM	March 2015	Diagnostic Fiscal Risks
CARTAC PFM	February 2015	Implementing a Performance Monitoring Regime for SOEs
CARTAC PFM	April 2014	Final PEFA report and Workshop on outcome
CARTAC PFM	May 2014	Preparation of PFM RAP
CARTAC STA	September 2014	External Sector Statistics
CARTAC STA	March, 2014	External Sector Statistics
CARTAC	January 2014	State Owned Enterprises
CARTAC	November 2013	Internal Controls and Internal Audit for Management
CARTAC	September 2013	Strengthening the Custom Administration – organization structure review
CARTAC	September 2013	Public Expenditure and Financial Accountability assessment fieldwork and report preparation
STA	May 2013	Monetary and financial statistics
MCM	May 2013	Medium-term debt management strategy
CARTAC	April 2013	Financial Analysis and Risk Assessment Training for Supervisors of Credit Union, Securities Firms
FAD	March 2013	Measures to Improve the performance of the Customs Administration
CARTAC	September 2012	External Sector Statistics, introducing BPM6
CARTAC	July - September 2012	Review of Non-Bank Sector against International Standards and Core Principles
CARTAC	July 2012	Basel IImplementation/ Revised Capita l Adequa cy Framework for commercial banks
CARTAC STA	March 2012	National accounts statistics
CARTAC	February 2012	Transition to a consolidated account of general government
CARTAC	February 2012	Developing producer price index
STA	April - May 2012	SDSS Assessment
CARTAC	February 2012	Transition to a consolidated account of general government

Resident Representative: The resident representative post was closed in January 1999.

RELATIONS WITH THE WORLD BANK GROUP

(As of May 10, 2016)

Barbados graduated from World Bank financing in 1993, but has continued to borrow in the area of HIV/AIDS on an exceptional basis. The World Bank has been providing technical and financial assistance in the area of HIV/AIDS to Barbados since 2001. The Caribbean HIV/AIDS I-Barbados Project, which closed in 2007, achieved high levels of awareness, treatment, and care, but was less successful in inducing the level of sustained behavior change required to affect the epidemic's prevention and control.

Given the success of the first project and the remaining unfinished work, the Government of Barbados (GOB) requested a follow-on project to contribute to tackling the outstanding challenges. The US$35 million World Bank second loan, approved in August 2008, supported the implementation of the National Strategic Plan for HIV Prevention and Control 2008–2013 (NSP), specifically to increase: (i) adoption of safe behaviors, in particular amongst key populations at higher risk; (ii) access to prevention, treatment and social care, in particular for key populations at higher risk; (iii) capacity of organizational and institutional structures that govern the National Aids Program; and (iv) use of quality data for problem identification, strategy definition and measuring results. This project closed in November 2014. The GOB requested the loan in part to ensure sustainability and commitment of funding to the National HIV/AIDS Program while improving accountability and multi-sectoral coordination of the Program. Due to the country’s graduated status, Bank assistance was justified in the context of the public goods nature of support to HIV/AIDS prevention and control. The Bank was the only source of external funding, as other sources such as the Global Fund against AIDS, TB and Malaria targeted lower-income countries.

Disbursements and Debt Service

(Fiscal Year ending June 30th--in millions of U.S. dollars)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Disbursements	4.0	1.9	1.8	1.6	4.7	1.6	3.2	3.7	14.4	5.7	0.0
Repayments	1.9	2.1	1.0	0.9	1.3	1.7	2.0	2.0	2.7	2.9	2.7
Net Disbursements	2.0	-0.2	0.7	0.7	3.3	-0.1	1.2	1.7	11.7	2.8	-2.7
Interest and Fees	0.5	0.6	0.7	0.8	0.7	0.6	0.5	0.5	0.4	0.3	0.2

Source: World Bank.

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of May 24, 2016)

The Inter-American Development Bank (IDB) has a portfolio of eleven loans to Barbados totaling US$209 million, of which US$89.6 million were disbursed. This portfolio includes only investment loans. The last approved policy-based loan of $70 million was fully disbursed in 2011 (Support for Sustainable Energy Framework for Barbados II). It is a relatively 'young' portfolio with seven operations, amounting to 70 percent in value terms, having been approved since December 2010. Its execution is programmed until 2021.

Current Loan Portfolio

Name	Approval Date	Amount in US$million	
		Approved	Disbursed
Modernization of the Barbados Statistical Service	Jul-08	5.0	4.1
Modernization of the Barbados National Procurement System	Dec-08	5.0	2.0
Water & Sanitation System Upgrade	Dec-09	43.2	43.2
Barbados Competitiveness Program	Dec-09	8.8	4.8
Coastal Risk Assessment and Management Program	Dec-10	30.0	17.8
Sustainable Energy Investment Program	Dec-10	10.0	6.9
Skills for the Future	Jun-12	20.0	7.9
Public Sector Smart Energy (PSSE) Program [1]	Jun-12	17.0	0.3
Enhanced Access to Credit for Productivity Project [2]	Dec-14	35.0	2.5
Strengthening Human and Social Development in Barbados [3]	Sep-15	10.0	0.0
Road Rehabilitation and Improving Connectivity of Road Infrastructure	Nov-15	25.0	0.0
Total		***209.0***	***89.6***

Source: Inter-American Development Bank.

[1] The European Union is co-financing the PSSE Program with a total of €5.8 million in grants in addition to the IDB's US$17 million.

[2] The China Trustfund managed by the IDB co-financed half of this loan (US$17.5 million), while the remainder is financed by the IDB's ordinary capital for a total of US$35 million.

[3] The China Trustfund managed by the IDB co-financed half of this loan (US$5 million), while the IDB's ordinary capital financed the remainder for a total of US$10 million.

The IDB has an active non-reimbursable technical cooperation portfolio of fifteen operations totaling US$12.4 million. Three of these are Multilateral Investment Fund grants amounting to US$1.4 million and one is a Project Specific Grant totaling €5.8 million (PSSE with co-financing from the European Union).

2016 Lending Program

A new Country Strategy for Barbados 2015-2018 was approved in June 2015. The focus is on supporting private sector competitiveness and enhancing efficiency in service delivery, while addressing binding constraints to growth in the following sectors: (i) Tourism; (ii) Transportation and Logistics; (iii) Energy; and (iv) Integrated Coastal Zone Management and Climate Resilience. There are two loans in the pipeline for approval in 2016: (i) National Tourism Program for a total of US$10 million; and (ii) Deployment of Cleaner Fuels & Renewable energies in Barbados for a total of US$24 million.

Net Cash Flow

Over the past decade, Barbados experienced a negative net cash flow that averaged US$15 million during 2004-08. During 2009-11, policy-based loans led the rise in disbursements and the positive net cash flow that peaked at US$54.3 million in 2011. After 2013, these remained positive and are expected to decline in 2016.

Cash Flow Indicators

(US$ million)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016e
Approvals	0.0	4.4	0.7	5.0	41.1	49.0	85.0	70.0	37.0	0.0	35.0	35.0	34.0
Disbursements	7.9	4.4	2.2	2.8	18.5	30.4	49.9	77.8	9.5	23.7	31.3	26.0	26.1
Repayments	13.8	12.2	15.6	15.9	19.7	18.7	20.5	19.7	19.3	18.5	15.4	16.1	20.1
Interest and Commissions	7.4	7.1	6.5	6.3	6.2	6.2	5.8	3.8	4.8	4.0	3.8	3.8	3.9
Net cash flow	**-13.3**	**-14.9**	**-19.9**	**-19.4**	**-7.4**	**5.5**	**23.6**	**54.3**	**-14.6**	**4.8**	**12.1**	**6.1**	**2.1**
Debt outstanding	**150.7**	**150.1**	**140.6**	**133.0**	**149.1**	**160.0**	**190.0**	**248.0**	**238.0**	**243.0**	**259.0**	**268.0**	**264.0**

Source: Inter-American Development Bank.

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of May 12, 2016)

The Caribbean Development Bank (CDB) approved US$481.4 million (Net) in loans, contingent loans, equity, and grants to Barbados over the period 1970 to 2015, representing 11.3 percent of total approvals to CDB's Borrowing Member Countries (BMCs). Table 1 presents the cumulative net approvals by sector.

Table 1. CDB Loans, Equity and Grants Approved (Net)
1970-2015

Sector	Total Value *(US$ million)*	%
Tourism	41.8	8.7
Manufacturing and Industry	31.9	6.6
Agriculture and Rural Development	18.9	3.9
Sub-total	**92.6**	**19.2**
Transportation and Communication	123.4	25.6
Social Infrastructure and Services	130.0	27.0
Financial, Business and Other Services	7.2	1.5
Environmental Sustainability and Disaster Risk Reduction	7.6	1.6
Power, Energy, Water, and Sanitation	44.8	9.3
Sub-total	**313.0**	**65.0**
Multi-Sector	75.8	15.7
Total	**481.4**	**100.0**

Source: Caribbean Development Bank.

Table 2 presents annual net approvals over the past decade.

Table 2. Approvals of Loans, Contingent Loans, Equity and Grants (Net) 2004-15

Year	Total Value (US$ million)	Sector
2004	-3.4	Manufacturing and Industry; Agriculture and Rural Development; and Transportation and Communication.
2005	-4.1	Tourism; Manufacturing and Industry; and Social Infrastructure and Services.
2006	20.4	Tourism; Manufacturing and Industry; Agriculture and Rural Development; Social Infrastructure and Services; Financial, Business and Other Services; and Environmental Sustainability and Disaster Risk Reduction.
2007	32.4	Manufacturing and Industry; Transportation and Communication; Financial, Business and Other Services; and Multi-Sector.
2008	0.1	Multi-Sector; Financial, Business and Other Services; and Multi-Sector.
2009	13.3	Tourism; Manufacturing and Industry; Social Infrastructure and Services; and Multi-Sector.
2010	62.1	Manufacturing and Industry; Agriculture and Rural Development; Social Infrastructure and Services; Transportation and Communication; Power, Energy, Water, and Sanitation; and Multi-Sector.
2011	35.3	Agriculture and Rural Development; Manufacturing and Industry; Social Infrastructure and Services; and Multi-Sector.
2012	2.1	Manufacturing and Industry; Social Infrastructure and Services; and Financial, Business and Other Services.
2013	39.9	Transportation and Communication; Environmental Sustainability and Disaster Risk Reduction; and Manufacturing and Industry.
2014	6.4	Manufacturing and Industry; Social Infrastructure and Services; and Financial, Business and Other Services.
2015	31.0	Power, Energy, Water and Sanitation and Social Infrastructure and Services.

Source: Caribbean Development Bank.

Table 3 shows the disbursed and undisbursed balances over the past decade. Cumulative disbursements to Barbados amounted to US$339.7 million over the period 1970–2015, representing 9.9 percent of CDB's total disbursements to its BMCs.

Table 3. Disbursed and Undisbursed Balances

Year	Disbursed	Undisbursed
2005	8.6	47.5
2006	9.3	62.2
2007	23.6	71.3
2008	25.2	47.2
2009	16.8	46.1
2010	32.8	43.2
2011	11.8	32.3
2012	7.5	102.4
2013	12	101.2
2014	11	91.3
2015	5.4	124.3

Source: Caribbean Development Bank.

STATISTICAL ISSUES

(As of June 28, 2016)

I. Assessment of Data Adequacy for Surveillance

General: Data provision is deemed to be broadly adequate for surveillance despite shortcomings in GDP at constant and current prices, consumer prices, financial reporting by public enterprises (statutory bodies) and discrepancies on external sector data (net foreign assets), including international investment position (IIP). These data shortcomings are due to weak capacity, which hampers the provision of and/or affects the reliability of certain data. IMF experts, mainly from CARTAC, are providing TA to help improve Barbados' statistical capacity in these areas. Barbados has been participating in the General Data Dissemination System (GDDS) since May 2000 and currently participates in its successor initiative, the enhanced GDDS.

National Accounts: At present, the Barbados Statistical Services (BSS) compiles GDP at current prices according to the 1993 system of national accounts (see paragraph 39 and Annex I of the Staff Report). GDP at constant prices (real) is compiled by the Central Bank of Barbados (CBB) on an annual basis, which it needs for analytical and operational purposes. CBB estimates use the production approach at a highly aggregated level with partial data and an outdated 1974 base year. Given these limitations, Fund experts determined that these estimates should be viewed as "projections" rather than statistics. Neither agency publishes an estimate of a GDP deflator. These series have moved in different directions since 2011 and cannot be reconciled with available price information (CPI).

IMF experts are supporting the BSS in the production of a constant price series and have identified a few resource gaps in the production of quarterly real and nominal GDP estimates. The BSS has committed to disseminate the annual real GDP estimates and the quarterly nominal and real GDP by October 2016; staff urged the authorities to move production of both series officially to the BSS after it is able to address the data inconsistency issues.

The BSS is finalizing preparation of the constant price series by industry. In an effort to improve source data, the BSS will continue to utilize administrative data for the generation of economic indicators. The BSS plans to develop quarterly constant price estimates by industry. As a medium term goal, the BSS should construct GDP by expenditure, both quarterly and annually.

Price Statistics: The BSS, with support from CARTAC, published producer price indexes (PPI), including 27 industries and 68 establishments that represent 80 percent of manufacturing output, and export and import price indices. However, the output was hampered by weaknesses in the survey and processing issues and recent number raise significant questions about their reliability.

Despite recent initiatives to update the consumer price index and the index of industrial production, potential misalignments in real estate prices are not addressed due to the absence of a systematic index of property prices. The consumer price index uses an expenditure basket for 1998–99 for its July 2001=100 series introduced in January 2002. The BSS is currently working towards a new index of industrial production with base year 2014.

Government Finance Statistics: Fairly comprehensive and up-to-date above-the-line data are available for central government budgetary accounts, but government transfers are reported with a lag. The authorities have reported for the GFSY 2015 edition, but the most recent year data provided is 2013. As a result of the incomplete coverage of off-budget transactions, a discrepancy exists between the overall balance and financing data in some years. Public enterprises (PEs) and other statutory bodies have not submitted financial reports for several years, with some dating back to 2007 or 2009. They submit estimates in the budget process through line ministries, but accounting is generally not provided on outturns. The authorities are increasing resources at the Ministry of Finance (MoF) to monitor performance of the largest PEs and there has been an increase in compliance but much more work is still needed.

Information on central government arrears has improved, but a more comprehensive measure is needed that includes general government and the Barbados Revenue Agency. Financial sector data on public sector net domestic borrowing usually cannot be fully reconciled with above-the-line fiscal data, partly because of limited availability of nonbank financial sector information. This includes contracting of liabilities by PEs. This reduces the degree of certainty about the actual fiscal position as well as contingent liabilities of the state. The authorities introduced accrual accounting of public finance in April 2007 though further refinements are underway.

Data on public sector debt is based on end-March 2016 data, received from the Debt Management Unit at the MoF. The CBB also presents debt data which differs from data provided by MoF for several reasons, including the timing of recording of payments and disbursements and the use of different sources in some cases such as domestic loan data. Staff practice has been to use data provided by one source—the MoF. STA has not received any request from the authorities for TA in government finance statistics in recent years.

Monetary and Financial Statistics: Monetary data are available on the CBB website, however, these data have not been reported to STA nor published in *IFS* since May 2012. The monetary survey uses only central bank and commercial bank data. The February 2009 and May 2013 STA missions recommended expanding the coverage to include data for other deposit taking institutions and the three largest credit unions. However, this recommendation has not yet been implemented. As a result, actual monetary data are under-estimated. Interest rate data (e.g., T-bill rate, various deposit and lending rates) are available on the CBB website.

Financial sector surveillance: The CBB and FSC publish financial stability reports, which analyze a range of financial soundness indicators (FSIs) for commercial banks and other financial institutions. Authorities compile FSIs for their own use but do not report them to STA.

External sector statistics: The authorities are making efforts to provide more comprehensive quarterly estimates of balance of payments data, which is hampered by lags in the compilation of data on trade in services, and incomplete information on the activities of the offshore sector. In addition, lack of data on external private debt prevents a full quantitative assessment of the economy's external position. The quality of the current and capital account estimates needs to be improved, based on the sometimes large errors and omissions needed to balance the accounts. The tourism receipts numbers may also not provide a comprehensive report on tourism spending. It is based on survey data from the CTO, but it is not clear whether spending by tourist using Airbnb and similar online service providers are adequately captured. Barbados provides estimates of its IIP with a lag; however, these data do not appear to be consistent with balance of payment data. The CBB should continue to draw on available CARTAC assistance to reconcile IIP data with the balance of payments. Data on official reserve assets, which are not disseminated on a timely basis nor according to a fixed schedule, should be circulated on a monthly basis within one to four weeks after the end of the reference month.

II. Data Standards and Quality

The country is a GDDS participant. However, most of its metadata, with the exception of the real sector and socio-demographic metadata, have not been updated since October 2002. At the authorities' request, STA has conducted an SDDS assessment, providing a draft action plan that could lead to SDDS subscription.

Table of Common Indicators Required for Surveillance					
	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Fixed				
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	04/2016	05/2016	M	M	M
Reserve/Base Money	04/2016	05/2016	M	M	M
Broad Money	12/2015	03/2016	M	M	M
Central Bank Balance Sheet	04/2016	05/2016	M	M	M
Consolidated Balance Sheet of the Banking System	01/2016	04/2016	M	M	M
Interest Rates[2]	03/2016	05/2016	M	M	M
Consumer Price Index	12/2015	04/2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	03/2016	05/2016	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	03/2016	05/2016	Q	Q	Q
External Current Account Balance	12/2015	05/2016	Q	Q	Q
Exports and Imports of Goods and Services	12/2015	04/2016	Q	Q	Q
GDP/GNP	2014	03/2016	A	A	A
Gross External Debt	03/2016	05/2016	A	A	A
International Investment Position[6]	2013	10/2015	A	I	I

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state a local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

Statement by the IMF Staff Representative on Barbados
August 22, 2016

1. This statement reports on information that has become available since the staff report was issued. It does not alter the thrust of the staff appraisal, in particular the need for renewed fiscal reform effort.

2. **Economic developments since the Article IV mission have been mixed.** The Central Bank reported that growth in the first six months of 2016 was 1.3 percent and lowered its projection for the year to 1.5 percent, reflecting the first half-year performance, a delay of a large tourism investment project, slower growth of tourism arrivals, and concerns about Brexit. Notwithstanding, the unemployment rate declined sharply from 10.2 percent in 2015Q4 to 9.3 percent for the 2016Q1. Growth in tourism arrivals slowed to 5.3 percent compared to 14.7 in the first half of 2015. Producer prices are down 3 percent from May 2015 while the CPI fell by 1.4 percent by end-March.

3. **External developments generally remain positive, but international reserves have fallen further.** Lower fuel prices, a recovery in merchandise exports, and continued growth in tourism receipts have further improved the current account position relative to the first half of 2015. In addition, long-term private capital inflows have increased. However, as a result of official debt service and short-term outflows, reserves fell by US$21.5 million to US$441.9 million, compared with Staff's revised end-2016 estimate of US$ 458 million, or about 3 months of imports).

4. **Regarding fiscal developments, government finances are deteriorating and funding challenges have intensified.** The Central Bank reported the deficit in the first quarter of FY2016/17 (April to June) increased by about 0.25 percent of GDP, mainly on account of lower revenues. Non-interest expenditures declined broadly offsetting the lower revenues, but interest cost were higher. The Central Bank has had to significantly increase its funding of the government as commercial banks reduced their lending, including by reducing the amount they rolled over. About two-thirds of this funding came from the CBB on-lending commercial banks' excess reserves, and a third reflected the creation of new money.

5. **The authorities presented new budgetary proposals on August 16th.** These measures are intended to reduce the cash deficit by about 1.8 percent this year and to continue the consolidation in the coming years, to bring the deficit to about 2.5 percent in 2018—the government's medium-term real growth target. The main measures include a new social responsibility levy on imports, to help pay for medical costs and support an improved sanitation program, an increase in the bank asset tax from 0.2 percent to 0.35 percent, and a tax amnesty. On the expenditure side, the budget targets reducing spending by about 0.6 percent of GDP through increased efficiencies and continued reduction in transfers to public enterprises. The budget also noted that there would be no new capital controls. Privatization, new tourist projects, and accelerated drawdown from development banks are expected to increase international

reserves to over US$500 million in the coming months. The budget reiterated the government's commitment to meet its debt service obligations but noted that it will develop a refinancing plan for the state enterprises to better manage the government's contingent liabilities. The budget also provided for increased tax exemptions for certain tourist developments.

6. **The staff appraisal remains appropriate.** The staff welcomes the government's commitment to continue fiscal consolidation although the further increase in tax exemptions could erode the revenue performance. Developments in the first half of the year, mainly delayed investment, slower tourism arrivals, and Brexit, are likely to reduce growth to below 2.0 percent in 2016 and 2017. Nevertheless, the budgetary measures should more than offset the effect of weaker growth on the debt profile—assuming full implementation on a timely basis. However, more may need to be done to stabilize the debt over the medium term, particularly if growth fails to pick up as envisaged by the authorities. Staff's key points on the need to support the economic recovery, renew the reform effort, and reduce the fiscal deficit and bring down public debt remain valid.

Statement by Michael McGrath, Alternate Executive Director for Barbados and Lorie Zorn, Senior Advisor
August 22, 2016

Our Barbadian authorities thank staff for their frank and comprehensive assessment of the challenges facing the Barbados economy. There is broad agreement on the thrust of the staff report, including the areas that need to be addressed and the policy proposals. However, our authorities have some differences of view from staff in light of the past several years of fiscal consolidation and the need to maintain social consensus.

Economic Overview

The economic recovery in Barbados has continued to strengthen, and the effects of multiple shocks experienced since the great financial crisis have started to dissipate. Real GDP grew by almost 1 percent in 2015 – the highest rate of growth since 2007 – and the pace has increased into 2016. Between January and June, the economy grew by 1.3 percent compared to virtually no growth over the same period in 2015.

The solid increase in tourism activity has supported the economic recovery. Tourist arrivals grew by about 14 percent over 2015 and have continued to grow this year, although at a slower, but still healthy, rate of 5 percent. The financial services sector, which contributes to almost one quarter of GDP has also maintained its small but steady pick-up. These developments have helped to increase employment while bringing down the unemployment rate from an average of 12.5 percent in the latter half of 2014 to an average of 11.5 percent in the latter half of 2015. Unemployment has continued to fall, reaching an average of 9.3 percent over the first quarter of 2016.

The Barbadian authorities forecast economic growth of 1.5 percent in 2016, which indicates a slower pace for the remainder of this year owing to expected delays in major tourism and other commercial investment projects. The main impact on growth of the recent fall in the value of the pound sterling may be a reduction in real estate sales to U.K. residents, but the growth rate could be higher if investment in tourism and alternative energy can be sped up. Inflation, which is mainly imported via fuel and commodity prices, has continued to decline further into negative territory.

Despite the strength in tourism, which has contributed to a narrowing in the current account deficit, a decline in private investment plus higher external debt service requirements have resulted in a decline in foreign exchange reserves of approximately BDS$168 million (USD 84 million), since the end of 2014. This translates into a decline of about 1 week of import cover, i.e., 14.7 weeks at end-2014 to 13.5 weeks at end-June 2016. Even so, the loss of reserves from January to June was about half as large as that experienced in the first six months of 2015. In addition, private foreign inflows for known investment projects, mostly related to hotel development, plus a tightening in foreign exchange outflows related to recently announced budget measures are expected to restore the stock of reserves to approximately BDS$938 million (USD 470 million), equivalent to about 14 weeks of import cover, by the end of this year. While this level of foreign reserves is viewed by the Barbadian authorities as adequate to protect the value of the Barbados currency, they also agree with staff that there is little margin for maneuver in the event of a downside shock. The goal over a longer period is to restore reserves to a more comfortable level that is closer to 18 weeks of import cover. Achieving this objective will require a reduction in public sector spending alongside an increase in economic activity.

Fiscal performance in 2015-16 continued to register improvement. The publically-announced target deficit of 4.5 percent, which is calculated on an accrual basis to ensure full accountability and transparency within the public sector, was achieved despite delays in investment projects and slow implementation of certain 2015 budget measures. This compares to a deficit of 5.0 percent (on an accrual basis) in 2014-15. However, on a cash basis, lower-than-expected growth in tax revenues plus higher-than expected capital transfers resulted in a cash deficit that was greater than originally anticipated. With the exception of two tax measures, all of the June 2015 policy changes now have been fully implemented. Furthermore, in recognition of the seriousness of the fiscal situation and the need to maintain credibility in the government's commitment to fiscal rationalization and a sustained economic recovery, additional actions have been announced in the August Budget and Financial Statement (BFS). Nonetheless, a further increase in the gross government debt-to-GDP ratio is implied in the near term. Although the Barbadian authorities agree that the overall level of government debt is too high, they are of the view that debt is sustainable in the short term, predicated on the low concentration of foreign debt – foreign debt service accounts for only 8 percent of balance-of-payment current account credits. Appropriate policy actions will contain and eventually reverse the debt ratio in the longer term.

Fiscal Policy Agenda

In response to the high deficit of 11 percent in the fiscal year 2013-14, the Barbados government committed to a program of extensive fiscal consolidation which saw subsequent (cash) deficits decline to approximately 7 percent of GDP in 2014-15 and 2015-16. While this necessarily imposed some sacrifice on the Barbadian people during this period, social cohesion has been maintained.

The Barbadian **authorities remain committed to fiscal adjustment and public sector reforms** so that the fiscal deficit is reduced below the rate of economic growth in the near term and is in balance by 2020. Work continues, with the aid of technical assistance, towards a fiscal responsibility law. In the meantime, numerous tax measures have been introduced and the contingent of public sector employees has been reduced in order to increase tax revenues and reduce public expenditures respectively. These measures have only recently started to bear fruit.

The August BFS outlined additional adjustments in support of fiscal consolidation:

- Effective September 1, 2016, a National Social Responsibility Levy at a rate of 2 percent on all imports into Barbados (except goods for manufacturing, agriculture and tourism) to assist in offsetting the costs of financing public health care service provision in Barbados.
- Effective April 1, 2016, the Bank Asset Tax will increase from the current rate of 0.2 percent to 0.35 percent.
- An amnesty on interests and penalties on taxes owed across the tax categories of VAT, Income, and Land taxes will be granted from September 15, 2016 to February 15, 2017 if the full balance of the principal is paid within this time frame.
- BDS$50 million in approved expenditure will be cut across all ministries in the 2016-17 fiscal year.

At the same time, a program of comprehensive **public sector structural reforms will continue** to complement these measures. This includes restructuring public enterprises through improved governance and financial management practices, and through mergers and eliminations to increase efficiency in the delivery of high-quality services. A key example is the centralized Barbados Revenue Authority, which has now been fully established to oversee and enforce the collection of all taxes and excise duties. With the aid of a new, common IT system, the amalgamated entity will streamline operations and help to increase tax compliance and reduce tax refund arrears. The government will also soon unveil proposals for mergers involving the National Housing Corporation, as well as other organizations with mandates related to tourism, sports, and the delivery of social goods. However, necessary consultations with labor unions and other stakeholders imply that the decision process will not be completed before the end of this year. More generally, public financial management will continue to improve with planned enhancements to the government procurement system in the areas of a stronger legal framework, enhanced procurement operations, and governance. Legislation for the regulation and control of public procurement is well advanced and should be brought before Parliament before year end.

The authorities acknowledge that **financing the deficit is challenging but manageable**. Commercial banks increased their holdings of government debt by more than BDS$150 million over the 2015-16 fiscal year. As outlined in the staff report, the Central Bank of Barbados also contributed to meeting the government's financing requirement by recycling BDS$238 million of surplus funds – excess commercial bank reserves on deposit at the central bank – and providing BDS$190 million in new financing. Given the still low demand for credit by the private sector and the time needed for fiscal reforms to take effect, the authorities believe this temporary central bank support is necessary to help provide stability during the transition. Central bank credit to the government is expected to decline along with deficit reduction. The authorities are also mindful of the pressures on businesses of slow payment of statutory returns and trade payables, and intend to implement a more aggressive, multi-faceted approach to tackle the stock of arrears. Part of the approach will include elimination of zero-ratings in the VAT system and exchanging owed payments for arrears. Over BDS$200 million in tax returns was paid out to Barbadians in fiscal year 2015-16, and the government intends to continue to pay tax refunds in line with cash flows.

Monetary and Financial Sector Policy

Despite a difficult economic environment, the **Barbados financial system continues to demonstrate stability and resilience**. The central bank remains focused on preserving the fixed exchange rate by ensuring adequate reserves and maintaining a small spread between short-term domestic and U.S. interest rates. Following the April 15, 2015 elimination of the central bank stipulated minimum deposit rates, there was an attempt to narrow this gap and reduce the Barbados risk premium through intervention in the Treasury bill auction. However, the minor rate reductions could not be sustained on account of the government's cash flow needs, and since that time the Barbados-U.S. spread has returned to the average levels maintained since 2009.

Our authorities agree with staff that Barbadian banks remain well-capitalized and liquid, with low exposure to foreign liabilities. In addition, their parent banks and banking systems remain financially sound, based on national financial stability reports. In 2015, banking sector performance improved as write-offs of bad loans and non-performing loans decreased, and profitability increased substantially. However, loan growth overall has remained weak, and excess cash holdings in 2015 were more than double the required amount. Stress tests of deposit-taking institutions and the insurance sector continue to indicate that the system would be able to withstand a range of adverse shocks.

The Barbados financial system is well-developed, and regulatory and supervisory standards have continually improved. The authorities are intent on further strengthening financial practices and regulatory oversight within the Barbados financial system in line with outstanding Financial Sector Assessment Program and Financial Action Task Force recommendations. Along with other regional authorities, they are working to alleviate the threat of de-risking by understanding and addressing the risk concerns of global banks and regulators, and by engaging in global initiatives that focus on the decline in correspondent banking relationships.

Economic Data

The authorities agree with staff that improving data quality is of high importance. They continue to work with the Fund's technical assistance program to resolve outstanding data issues, and are pressing for a long-term resident advisory to build capacity in this area.

Enhancing Medium-Term Growth

As first outlined in 2013, the key features of the government's medium-term agenda are aimed at meeting fiscal and foreign exchange targets as well as objectives for balanced, sustainable and inclusive economic growth. The strategy for growth is focused on enhancing competiveness and increasing private sector activity in foreign exchange earning sectors –tourism, international business, competitive exports (mainly bottled rum and chemical products for household use) – and developing an alternative energy sector to reduce energy costs. The government supports this strategy through fiscal incentives for private investment, direct financial support for priority investment projects, infrastructure improvements, and by facilitating a competitive business environment through efficient provision of public services.

A number of past and more recent measures have been introduced that will support growth objectives:

- In the tourism sector, increased airlift out of key source countries has been negotiated, tax incentives for tourism services companies have improved, and several high-end hotel and port development projects have been launched. In addition, the Tourism Development Act is to be amended to permit eligible hotel property owners to access concessions for multi-year refurbishment and renovation projects.
- The authorities have helped facilitate the launch in March of an international securities market under the Barbados Stock Exchange, aimed at smaller firms that otherwise might be unable to sustain a public listing. The market is accompanied by low listing fees and a comprehensive governance and regulatory framework that is right-sized for small and mid-sized firms, but more rigorous than many other offshore financial jurisdictions.
- In line with the National Policy to help develop the renewable energy sector, legislation has been passed to support producers and consumers, fiscal incentives to install solar photovoltaic systems have been introduced, and a floor price for power generated by independent producers of renewable energy has been established.
- In support of productive activity and business expansion, fees and licenses for business operations have been reduced by 50 percent and the government is in the process of finalizing a new policy framework for the development of small and medium-size business. A reimbursable grant of up to BDS$50,000 is to be established to help local companies improve product and service quality to international standards. In addition, a 5-year plan to improve several major roads and connectivity across the island is being launched with financial support from the Inter-American Development Bank and the Latin American Development Bank.

Conclusion

After many challenging years, the Barbados economy is gaining strength, and prior actions by the Barbadian authorities to address public finances, while safeguarding growth potential and maintaining social consensus, are taking hold. The August Budget and Financial Statement demonstrates further movement in the direction of improving Barbados’ position. It also reinforces the authorities’ commitment to making the appropriate fiscal, financial, and structural adjustments to significantly reduce the deficit while protecting the ability to generate strong, sustainable growth. Moreover, the authorities stand ready to take additional measures should adverse developments threaten to derail the adjustment program. This will require careful, measured progress supported through Barbados’ strong social partnership framework so that living standards are not unreasonably impacted and the vulnerable are protected.